

## BASE PROSPECTUS



### BANCO SANTANDER, S.A.

*(incorporated with limited liability in Spain)*

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

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

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. This Base Prospectus has been approved on 8 March 2018, as a base prospectus issued in compliance with the Prospectus Directive for the purpose of giving information with regard to the issue of Instruments under the Programme during the period of twelve months after the date of its approval. The Central Bank of Ireland assumes no responsibility as to the economic and financial soundness of the transactions and the quality or solvency of the Issuer. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (**"EU"**) law pursuant to the Prospectus Directive. Such approval relates only to the Instruments which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (**"MiFID II"**) and/or which are to be offered to the public in any member state (**"Member State"**) of the European Economic Area (**"EEA"**). Application has been made to the Irish Stock Exchange (the **"Irish Stock Exchange"**) for the Instruments to be admitted to the official list (the **"Official List"**) and trading on its regulated market. This Base Prospectus will be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the information incorporated by reference under Section titled **"Documents incorporated by Reference"** herein will be published on the website of Banco Santander ([www.bancosantander.com](http://www.bancosantander.com)). The Programme also permits Instruments to be issued on the basis that they will be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

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

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

There are certain risks related to any issue of Instruments under the Programme, which investors should ensure they fully understand (see **"Risk Factors"** on pages 7 – 51 of this Base Prospectus). Potential investors should note the statements regarding the tax treatment in Spain of income obtained in respect of the Instruments and the disclosure requirements imposed by Law 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), as amended from time to time (**"Law 10/2014"**) on the Issuer in relation to the Instruments. In particular, payments on the Instruments may be subject to Spanish withholding tax if certain information relating to the Instruments is not received by the Issuer in a timely manner.

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

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

**MIFID II product governance / target market** – The Final Terms in respect of any Instruments will include a legend entitled **"MiFID II Product Governance"** which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person subsequently offering, selling or recommending the Instruments (a **"distributor"**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the

Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

**PRIIPs / IMPORTANT – EEA RETAIL INVESTORS** – The Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the “**PRIIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA will be prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Amounts payable under the Instruments may be calculated or otherwise determined by reference to an index or a combination of indices and amounts payable on Reset Instruments issued under the Programme may in certain circumstances be determined in part by reference to such indices. Any such index may constitute a benchmark for the purposes of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**BMR**”). If any such index does constitute such a benchmark the applicable final terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to article 36 of the BMR. Not every index will fall within the scope of the BMR. Furthermore the transitional provisions in Article 51 of the BMR apply such that the administrator of a particular benchmark may not currently be required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence) at the date of the applicable final terms.

**Arrangers for the Programme**

**BARCLAYS**

**SANTANDER GLOBAL CORPORATE BANKING**

**Dealers**

**BARCLAYS**

**BoFA MERRILL LYNCH**

**COMMERZBANK**

**CREDIT SUISSE**

**GOLDMAN SACHS INTERNATIONAL**

**J.P. MORGAN**

**MORGAN STANLEY**

**NATWEST MARKETS**

**SANTANDER GLOBAL CORPORATE BANKING**

**UBS INVESTMENT BANK**

**BNP PARIBAS**

**CITIGROUP**

**CRÉDIT AGRICOLE CIB**

**DEUTSCHE BANK**

**HSBC**

**MIZUHO SECURITIES**

**NATIXIS**

**NOMURA**

**SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT  
BANKING**

**UNICREDIT BANK**

8 March 2018

## IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Base Prospectus and any Final Terms (as defined below) and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each Tranche (as defined herein) of Instruments will be issued on the terms set out herein under “*Terms and Conditions of the Instruments*” (the “**Terms and Conditions**”) as completed by a document specific to such Tranche called final terms (the “**Final Terms**”).

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

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

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer and the companies whose financial statements are consolidated with those of the Issuer (together, the “**Group**” or “**Santander Group**”) or the Instruments other than as contained or incorporated by reference in the Base Prospectus, in the Dealership Agreement (as defined in “*Subscription and Sale*”), in any other document prepared in connection with the Programme or any Final Terms or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Dealers or any of them.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates make any representation or warranty or accept any responsibility, as to the accuracy or completeness of the information contained in the Base Prospectus or any responsibility for any act or omission of the Issuer or any other person (other than the relevant Dealer) in connection with the issue and offering of the Instruments. Neither the delivery of the Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall create, in any circumstances, any implication that there has been no adverse change in the financial situation the Issuer or the Group since the date hereof or, as the case may be, the date upon which the Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements which are deemed to be incorporated into the Base Prospectus by reference.

The distribution of the Base Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus or any Final Terms come are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of the Base Prospectus or any Final Terms and other offering material relating to the Instruments, see “*Subscription and Sale*”. In particular, the Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Instruments in bearer form are subject to U.S. tax law requirements. The Instruments may not be offered, sold or (in the case of Instruments in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) or (in the case of Instruments in bearer form) as defined in the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder) except in certain transactions exempt from the registration requirements of the Securities Act.

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

The Instruments will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as specified in the applicable Final Terms, save that the minimum denomination of each Instrument will be such amount as may be allowed or required from time to time by the relevant central bank

(or equivalent body) or any laws or regulations applicable to the relevant specified currency indicated in the applicable Final Terms and save that, in the case of any Instruments which are to be admitted to trading on a regulated market within the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Instruments).

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

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed €25,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into euro at the date of the agreement to issue such Instruments (calculated in accordance with the provisions of the Dealership Agreement)). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement.

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

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

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

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

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

This Base Prospectus (and the documents incorporated by reference in this Base Prospectus) contains certain management measures of performance or alternative performance measures (“APMs”), which are used by management to evaluate Issuer’s overall performance. These APMs are not audited, reviewed or subject to review by Issuer’s auditors and are not measurements required by, or presented in accordance with, International Financial Reporting Standards as adopted by the EU (“IFRS-EU”). Accordingly, these APMs should not be considered as alternatives to any performance measures prepared in accordance with IFRS-EU.

Many of these APMs are based on Issuer's internal estimates, assumptions, calculations, and expectations of future results and there can be no guarantee that these results will actually be achieved. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by the Issuer, may not be comparable to other similarly titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS-EU, as indications of operating performance or as measures of Issuer's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS-EU and investors are advised to review these APMs in conjunction with the audited consolidated annual financial statements and the unaudited quarterly business activity and results report incorporated by reference in this Base Prospectus.

The descriptions (including definitions, explanations and reconciliations) of all APMs are set out in section "*Description of the Issuer—Alternative Performance Measures*" of this Base Prospectus.

The Issuer believes that the description of these management measures of performance in this Base Prospectus follows and complies with the ESMA Guidelines introduced on 3 July 2016 on Alternative Performance Measures.

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## RISK FACTORS

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

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

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

### CONTENTS OF THE RISK FACTORS

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

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

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

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

The Group's loan portfolio is concentrated in Continental Europe (in particular, Spain), the United Kingdom, Latin America and the United States. At 31 December 2017, Continental Europe accounted for 45% of the Group's total loan portfolio (Spain accounted for 28% of the Group's total loan portfolio), the United Kingdom (where the loan portfolio consists primarily of residential mortgages) accounted for 29%, Latin America accounted for 17% (of which Brazil represents 8% of the Group's total loan portfolio) and the United States accounted for 8%. Accordingly, the recoverability of these loan portfolios in particular, and the Group's ability to increase the amount of loans outstanding and its results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Continental Europe (in particular, Spain), the United Kingdom, Latin America and the United States. In addition, the Group is exposed to sovereign debt in these regions (for more information on the Group's exposure to sovereign debt, see Note 51.d and Note 54.c 4.4 to the Group's consolidated financial statements). A return to recessionary conditions in the economies of Continental Europe (in particular, Spain), the United Kingdom, some of the Latin American countries in which the Group operates or the United States, would likely have a significant adverse impact on the Group's loan portfolio and sovereign debt holdings and, as a result, on its financial condition, cash flows and results of operations. See "*Description of the Issuer—Business Overview*".

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

The economies of some of the countries where the Group operates have been affected by a series of political events, including the UK's vote to leave the EU in June 2016, which caused significant volatility (for more information, see "*Exposure to UK political developments, including the negotiations for the country's exit*").

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

The economies of some of the countries where the Group operates, particularly in Latin America, have experienced significant volatility in recent decades. This volatility resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which the Group lends. In addition, some of the countries where the Group operates are particularly affected by commodities price fluctuations, which in turn may affect financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. Negative and fluctuating economic conditions, such as slowing or negative growth and a changing interest rate environment, impact the Group’s profitability by causing lending margins to decrease and credit quality to decline and leading to decreased demand for higher margin products and services.

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

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

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

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

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

A general election in the UK was held on 8 June 2017 (the “**General Election**”). The General Election resulted in a hung parliament with no political party obtaining the majority required to form an outright government. On 26 June 2017, it was announced that the Conservative party had reached an agreement with the Democratic Unionist Party (the “**DUP**”) in order for the Conservative party to form a minority government with legislative support from the DUP. The long term effects of the General Election, which

resulted in a minority government, are difficult to predict due to significant uncertainty and the impact on the negotiation of the UK's exit from the EU. The outcome of the General Election could have a significant impact on the future international and domestic political agendas of the government (including the UK's exit from the EU), and on the ability of the government to pass legislation in the House of Commons, as well as increasing the risk of further early general elections and a period of political instability and/or a change of government.

While the longer term effects of the UK EU Referendum are difficult to predict, the effects of this referendum, in addition to the uncertainty created as a result of the outcome of the General Election, could include further financial instability and slower economic growth as well as higher unemployment and inflation in the UK. For instance, the UK Government has stated its intention for the UK to leave both the Single Market and the Customs Union (thereby ceasing to be party to the global trade deals negotiated by the EU on behalf of its members) and this could affect the attractiveness of the UK as a global investment centre and increase tariff and non-tariff barriers for the UK's trading relationships and, as a result, could have a detrimental impact on UK economic growth. Sustained low or negative interest rates would put further pressure on the Group's interest margins and adversely affect its operating results, financial condition and prospects. Equally, further rises in interest rates (in addition to the rate rise in November 2017) could result in larger default losses which would also impact on the Group's operating results, financial condition and prospects.

The UK EU Referendum has also given rise to further calls for a second referendum on Scottish independence. These developments, or the perception that they could occur, could have a material adverse effect on economic conditions and the stability of financial markets, and could significantly reduce market liquidity and restrict the ability of key market participants to operate in certain financial markets.

Asset valuations, currency exchange rates and credit ratings may be particularly subject to increased market volatility during the period of the negotiation of the UK's exit from the EU. The major credit rating agencies downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum and there is a risk that this may recur during the negotiation of the UK's exit from the EU as the potential terms of the exit (and any transition period) become public.

In addition, the Group is subject to substantial EU-derived regulation and oversight. There remains significant uncertainty as to the respective legal and regulatory environments in which the Bank and its subsidiaries will operate when the UK is no longer a member of the EU. This may cause potentially divergent national laws and regulations across Europe should EU laws be replaced, in whole or in part, by UK laws on the same (or substantially similar) issues.

For example, the Bank's subsidiaries in the UK are in the process of implementing a number of key restructuring and strategic initiatives, such as the ring-fencing of their retail banking activities in the UK, all of which will be carried out throughout this period of significant uncertainty. This may impact the prospects for successful execution and impose additional pressure on management.

Operationally, there is a significant risk that the Bank's subsidiaries in the UK and other financial institutions may no longer be able to rely on the European passporting framework for financial services (or an equivalent regime) and may be required to apply for authorisation in multiple EU jurisdictions, the costs, timing and viability of which is uncertain. This uncertainty, and any actions taken as a result of this uncertainty, as well as new or amended rules, may have a significant impact on the Group's operations, financial condition and prospects. In addition, the lack of clarity of the impact of the UK EU Referendum on foreign nationals' long term residency permissions in the UK may make it challenging for the Bank's subsidiaries in the UK to retain and recruit adequate staff, which may adversely impact the Group's business.

The UK political developments described above, along with any further changes in government structure and policies, may lead to further market volatility and changes to the fiscal, monetary and regulatory landscape in which the Group operates and could have a material adverse effect on it, including the Group's ability to access capital and liquidity on financial terms acceptable to the Group and, more generally, on its operating results, financial condition and prospects.

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

Global economic conditions deteriorated significantly between 2007 and 2009, and many of the countries in which the Group operates fell into recession. Although most countries have recovered, this recovery may not

be sustainable. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there were runs on deposits at several financial institutions, numerous institutions sought additional capital or were assisted by governments, and many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions). In the European Union, the principal concern as of the date of this Base Prospectus is the risk of slowdown of activity, because tax and financial integration, although not completed, has limited an individual country's ability to address potential economic crises with its own fiscal and monetary policies.

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

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

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

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

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

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

Conditions in the capital markets and the economy generally in the Eurozone showed signs of fragility and volatility, with political tensions in Europe being particularly heightened in the past two years. In addition, interest rate spreads among Eurozone countries affected government funding and borrowing rates in those economies. A reappearance of political tensions in the Eurozone could have a material adverse effect on the Group's operating results, financial condition and prospects.

The UK EU Referendum caused significant volatility in the global stock and foreign exchange markets. On 27 October 2017, a Spanish region (Catalonia) unilaterally declared independence from Spain resulting in

subsequent intervention by the Spanish Government and causing political, social and economic instability in this region. Following these events, the risk of further instability in the Eurozone cannot be excluded.

In the past, the European Central Bank (“**ECB**”) and European Council have taken actions with the aim of reducing the risk of contagion in the Eurozone and beyond and improving economic and financial stability. Notwithstanding these measures, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by Eurozone (and other) nations, which may be under financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be adversely affected, with wider possible adverse consequences for global financial market conditions. The risk of returning to fragile, volatile and political tensions exists if current ECB policies in place to control the crisis are normalised, the reforms aimed at improving productivity and competition, the banking union and other measures of integration do not progress or anti-European groups succeed.

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

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

### ***Risks relating to the acquisition of Banco Popular***

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

The Acquisition took place in execution of the resolution of the Steering Committee of the Spanish banking resolution authority (“**FROB**”) of 7 June 2017, adopting the measures required to implement the decision of the European banking resolution authority, the Single Resolution Board (“**SRB**”), in its Extended Executive Session of 7 June 2017, adopting the resolution scheme in respect of Banco Popular, Español, S.A. (“**Banco Popular**”), in compliance with article 29 of Regulation (EU) No. 806/2014 of the European Parliament and Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (the “**FROB Resolution**”).

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

Since Banco Popular’s declaration of resolution, the cancellation and conversion of its capital instruments, and the subsequent transfer to Banco Santander of the shares resulting from that conversion through the resolution tool of selling the entity’s business, all under the rules of the single resolution framework indicated above, have no precedent in Spain or in any other EU member state, appeals against the SRB’s and FROB’s decision have been filed and claims against Banco Popular, Banco Santander or other entities of the Group derived from or related to the Acquisition cannot be ruled out. Various investors, advisors or financial institutions have announced their intention to explore, and, in some cases, have already filed various claims relating to the Acquisition. Some appeals before the

General Court of the European Court of Justice against the SRB's decision are seeking an order for the annulment of the SRB's and the EU Commission's endorsement decision. As to other possible appeals or claims, it is not possible to anticipate the specific demands that might be made, or their financial impact (particularly as any such claims may not quantify their demands, may make new legal interpretations or may involve a large number of parties). The success of those appeals or claims could affect the Acquisition, including the payment of indemnification or compensation or settlements, and any of those events may have a material adverse effect on the results and financial condition of the Group.

It is also possible that, as a result of the Acquisition, Banco Popular, its directors, officers or employees and the entities controlled by Banco Popular may be the subject of claims, including, but not limited to, claims derived from investors' acquisition of Banco Popular shares or capital instruments prior to the FROB Resolution (including specifically, but also not limited to, shares acquired in the context of the capital increase with preemptive subscription rights effected in 2016), which could have a material adverse effect on the results and financial condition of the Group. In this regard, on 3 April 2017, Banco Popular submitted a material fact (*hecho relevante*) to the Comisión Nacional del Mercado de Valores (the "CNMV" or "**Spanish Securities Market Commission**") reporting some corrections that its internal audit unit had identified in relation to several figures in its financial statements for the year ended 31 December 2016. The Board of Directors of Banco Popular, being responsible for said financial statements, considered that, following a report of the audit committee, the circumstances did not represent, on an individual basis or taken as a whole, a significant impact that would justify the restatement of Banco Popular's financial statements for the year ended 31 December 2016. Notwithstanding the foregoing, Banco Popular is exposed to possible claims derived from the isolated items identified in the aforesaid material fact or others of an analogous nature, which, if they were to materialise and be upheld, could have a material adverse effect on the operating results, financial condition and prospects of the Group.

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

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

The integration of Banco Popular and its group of companies into the Group after the Acquisition may be difficult and complex, and the costs, profits and synergies derived from that integration may not be in

line with expectations. For example, Banco Santander might have to face difficulties and obstacles as a result of, among other things, the need to integrate, or even the existence of conflicts between the operating and administrative systems, and the control and risk management systems at the two banks, or the need to implement, integrate and harmonise different procedures and specific business operating systems and financial, information and accounting systems or any other systems of the two groups; and have to face losses of customers or assume contract terminations with various counterparties and for various reasons, which might lead to costs or losses of income that are unexpected or in amounts higher than anticipated. Similarly, the integration process may also cause changes or redundancies, especially in the Group's business in Spain and Portugal, as well as additional or extraordinary costs or losses of income that make it necessary to make adjustments in the business or in the resources of the entities. All these circumstances could have a material adverse effect on the results and financial condition of the Group.

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

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

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

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

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

### ***Legal, Regulatory and Compliance Risks***

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

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

The Group is from time to time subject to certain claims and is a party to certain legal proceedings incidental to the normal course of its business, including in connection with conflicts of interest, lending activities, relationships with the Group's employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, the Group cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. The amount of the Group's reserves in respect of these matters is substantially less than the total amount

of the claims asserted against the Group and, in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Group. As a result, the outcome of a particular matter may be material to the Group's operating results for a particular period.

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

As a financial institution, the Group is subject to extensive regulation, which materially affects its businesses. The statutes, regulations and policies to which the Group is subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which the Group is subject may also change from time to time. Extensive legislation and implementing regulation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group's business, including Spain, the United States, the EU, the UK, Latin America and other jurisdictions, and further regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these regulations are implemented inconsistently in the various jurisdictions in which the Group operates, the Group may face higher compliance costs. Any legislative or regulatory actions and any required changes to the business operations of the Group resulting from such legislation and regulations, as well as any deficiencies in the Group's compliance with such legislation and regulation, could result in significant loss of revenue, limit the ability of the Group to pursue business opportunities in which it might otherwise consider engaging and provide certain products and services, affect the value of assets that it holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional compliance and other costs on the Group or otherwise adversely affect its businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Bank or on its bank subsidiaries and could limit the Bank's subsidiaries' ability to distribute capital and liquidity to the Bank, thereby negatively impacting the Bank. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the regulatory authorities, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognise further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

The wide range of regulations, actions and proposals which most significantly affect the Bank, or which could most significantly affect the Bank in the future, relate to capital requirements, funding and liquidity and development of a fiscal and banking union in the EU, which are discussed in further detail below. Moreover, there is uncertainty regarding the future of financial reforms in the United States and the impact that potential financial reform changes to the U.S. banking system may have on ongoing international regulatory proposals. In general, regulatory reforms adopted or proposed in the wake of the financial crisis have increased and may continue to materially increase the Group's operating costs and negatively impact the Group's business model. Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as the Bank that are deemed to be a global systemically important institution ("**G-SII**").

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

*Capital requirements, liquidity, funding and structural reform*

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels. As a Spanish financial institution, the Bank is subject to the Capital Requirements Regulation (Regulation (EU) No 575/2013) ("**CRR**") and the Capital Requirements Directive (Directive 2013/36/EU) ("**CRD IV**"), through which the EU began implementing the Basel III capital reforms from 1 January 2014, with certain requirements in the process of being phased in

until 1 January 2019. While the CRD IV required national transposition, the CRR was directly applicable in all the EU Member States. This regulation is complemented by several binding technical standards and guidelines issued by the European Banking Authority (“**EBA**”), directly applicable in all EU Member States, without the need for national implementation measures either. The implementation of the CRD IV into Spanish law has taken place through Royal Decree Law 14/2013 and Law 10/2014, Royal Decree 84/2015, Bank of Spain Circular 2/2014 and Bank of Spain Circular 2/2016. Credit institutions, such as the Bank, are required, on a standalone and consolidated basis, to hold a minimum amount of regulatory capital of 8% of risk weighted assets (of which at least 4.5% must be Common Equity Tier 1 (“**CET1**”) capital and at least 6% must be Tier 1 capital). In addition to the minimum regulatory capital requirements, the CRD IV also introduced capital buffer requirements that must be met with CET1 capital. The CRD IV introduces five new capital buffers: (1) the capital conservation buffer for unexpected losses, requiring additional CET1 of up to 2.5% of total risk weighted assets; (2) the institution-specific counter-cyclical capital buffer (consisting of the weighted average of the counter-cyclical capital buffer rates that apply in the jurisdictions where the relevant credit exposures are located), which may require as much as additional CET1 capital of 2.5% of total risk weighted assets or higher pursuant to the requirements set by the competent authority; (3) the G-SIIs buffer requiring additional CET1 of between 1% and 3.5% of risk weighted assets; (4) the other systemically important institutions buffer, which may be as much as 2% of risk weighted assets; and (5) the CET1 systemic risk buffer to prevent systemic or macro prudential risks of at least 1% of risk weighted assets (to be set by the competent authority). Beginning in 2016, and subject to the applicable phase-in period, entities are required to comply with the “combined buffer requirement” (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the G-SIIs buffer and the other systemically important institutions buffer, in each case as applicable to the institution).

The Bank will be required to maintain a capital conservation buffer of additional CET1 capital of 2.5% of risk weighted assets and a systemically important institutions buffer of additional CET1 capital of 1% of risk weighted assets, in each case considered on a fully loaded basis. However, as of the date of this Base Prospectus, due to the application of the phase-in period, the Bank is required to maintain a conservation buffer of additional CET1 capital of 1.875% of risk weighted assets, a G-SII buffer of additional CET1 capital of 0.75% of risk weighted assets and a counter-cyclical capital buffer of additional CET1 capital of 0.03% of risk weighted assets.

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

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

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

In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of its supervisory review and evaluation process (“**SREP**”). Included in this were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 capital requirements implemented on 1 January 2016. Under these guidelines, national supervisors must set a composition requirement for the Pillar 2 additional capital requirements to cover certain specified risks of at least 56% CET1 capital and at least 75% Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional capital requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements; and, accordingly, the above “combined buffer requirement” is in addition to the minimum Pillar 1 capital requirement and to the additional Pillar 2 capital requirement. Therefore capital buffers would be the first layer of capital to be eroded pursuant to the applicable stacking order, as set out in the “Opinion of the EBA on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions” published on 16 December 2015. In this regard, under Article 141 of the CRD IV, Member States of the EU must require that an institution that fails to meet the “combined buffer requirement” or the “Pillar 2” capital requirements described above, will be prohibited from paying any “discretionary payments” (which are defined broadly by the CRD IV as payments relating to CET1, variable remuneration and payments on Additional Tier 1 capital instruments), until it calculates its applicable restrictions and communicates them to the regulator and, once completed, such institution will be subject to restricted “discretionary payments”. The restrictions will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last distribution of profits or “discretionary payment”. Such calculation will result in a “Maximum Distributable Amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. Articles 43 to 49 of Law 10/2014 and Chapter II of Title II of Royal Decree 84/2015 implement the above provisions in Spain. In particular Article 48 of Law 10/2014 and Articles 73 and 74 of Royal Decree 84/2014 deal with restrictions on distributions.

In connection with this, Banco Santander has announced that it has received from the ECB its decision regarding prudential minimum capital phased-in requirements for 2018, following the results of SREP. The ECB decision requires that the Group maintains a CET1 phased-in capital ratio of at least 8.655% on a consolidated basis. This 8.655% capital requirement includes: the minimum Pillar 1 requirement (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.875%); the requirement deriving from its consideration as a G-SII (0.75%) and the counter-cyclical buffer (0.03%). The ECB decision also requires that the Bank maintains a CET1 phased-in capital ratio of at least 7.875% on an individual basis. This 7.875% capital requirement includes: the minimum Pillar 1 requirement (4.5%), the Pillar 2 requirement (1.5%) and the capital conservation buffer (1.875%). Taking into account the Bank’s consolidated and individual current capital levels, these capital requirements do not imply any limitations on distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 instruments.

In addition to the above, the CRR also includes a requirement for institutions to calculate a leverage ratio (“**LR**”), report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their LR in accordance with the methodology laid down in that article. In January 2014, the Basel Committee finalised a definition of how the LR should be prepared and set an indicative benchmark (namely 3% of Tier 1 capital). Such 3% Tier 1 LR has been tested during a monitoring period until the end of 2017 although the Basel Committee had already proposed the final calibration at 3% Tier 1 LR. Accordingly, the CRR does not currently contain a requirement for institutions to have a capital requirement based on the LR though prospective investors should note the European Commission’s proposal amending the CRR which contain a binding 3% Tier 1 LR requirement, that would be added to the own funds requirements in article 92 of the CRR, and which institutions must meet in addition to their risk-based requirements. However, the full implementation of the LR is currently under consultation as part of the proposals. Moreover, the potential for the introduction of a LR buffer for G-SIIs at some point in the future is also noted in the proposals.

On 9 November 2015, the Financial Stability Board (the “**FSB**”) published its final principles and term sheet containing an international standard to enhance the loss absorbing capacity of G-SIIs such as the Bank. The final standard consists of an elaboration of the principles on loss absorbing and recapitalisation capacity of G-SIIs in resolution and a term sheet setting out a proposal for the implementation of these proposals in the form of an internationally agreed standard on total loss absorbing capacity (“**TLAC**”) for G-SIIs. Once implemented in the relevant jurisdictions, these principles and terms will form a new minimum TLAC standard for G-SIIs, and in the case of G-SIIs with more than one resolution group, each resolution group

within the G-SII. The FSB will undertake a review of the technical implementation of the TLAC principles and term sheet by the end of 2019. The TLAC principles and term sheet require a minimum TLAC requirement to be determined individually for each G-SII at the greater of (a) 16% of risk weighted assets as of 1 January 2019 and 18% as of 1 January 2022, and (b) 6% of the Basel III Tier 1 leverage ratio exposure measure as of 1 January 2019, and 6.75% as of 1 January 2022. Under the FSB TLAC standard, capital buffers stack on top of TLAC.

Furthermore, Article 45 of the European Bank Recovery and Resolution Directive (Directive 2014/59/EU) (**“BRRD”**) provides that Member States shall ensure that institutions meet, at all times, a minimum requirement for own funds and eligible liabilities (**“MREL”**). The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The EBA was in charge of drafting regulatory technical standards on the criteria for determining MREL (the **“MREL RTS”**). On 3 July 2015 the EBA published the final draft MREL RTS. In application of Article 45(2) of the BRRD, the current version of the MREL RTS is set out in a Commission Delegated Regulation (EU) No. 2016/1450 that was adopted by the Commission on 23 May 2016 (the **“MREL Delegated Regulation”**).

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

The European Commission committed to review the existing MREL rules with a view to provide full consistency with the TLAC standard by considering the findings of a report that the EBA is required to provide to the European Commission under Article 45(19) of the BRRD. On 14 December 2016, the EBA published its final report on the implementation and design of the MREL framework where it stated that, although there was no need to change the key principles underlying the MREL Delegated Regulation, certain changes would be necessary with a view to improve the technical soundness of the MREL framework and implement the TLAC standard as an integral component of the MREL framework. On 20 December 2017, the SRB published its second policy statement on MREL, which will serve as a basis for setting binding MREL targets.

On 23 November 2016, the European Commission published, among others, a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No. 806/2014 which was passed on 15 July 2014 and became effective from 1 January 2015 (the **“SRM Regulation”**). The proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of “non-preferred” senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities, changes to the definitions of Tier 2 and Additional Tier 1 instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. The proposals also cover a harmonised national insolvency ranking of unsecured debt instruments to facilitate the issuance by credit institutions of such “non-preferred” senior debt. The proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process. Until all the proposals are in final form and are finally implemented into the relevant legislation, it is uncertain how the proposals will affect Banco Santander or the Holders.

One of the main objectives of these proposals is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules (the **“TLAC/MREL Requirements”**) thereby avoiding duplication from the application of two parallel requirements. As mentioned above, although TLAC and MREL pursue the same regulatory objective, there are, nevertheless, some differences between them in the way they are constructed. The European Commission is proposing to integrate the TLAC standard into the existing MREL rules and to ensure that both requirements are met with largely similar instruments, with the exception of the subordination requirement, which will be institution-specific and determined by the resolution authority. Under these proposals, institutions such as the Bank would continue to be subject to an institution-specific MREL requirement, which may be higher than the requirement of the TLAC standard.

The European Commission’s proposals require the introduction of limited adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for G-SIIs. In particular, technical amendments to the existing rules on MREL are needed to align them with the TLAC standard regarding inter

alia the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer requirements, disclosure of risks to investors, and their application in relation to different resolution strategies. Implementation of the TLAC/MREL Requirements is expected to be phased-in from 1 January 2019 (a 16% minimum TLAC requirement) to 1 January 2022 (a 18% minimum TLAC requirement).

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

In addition, the comprehensive reform of financial instruments accounting, IFRS 9, is applicable to the Group since 1 January 2018. IFRS 9 introduces, among other things, a new impairment model based on expected loss rather than incurred loss. Banco Santander expects that this change is likely to increase loan loss provisions and decrease equity at the date of transition and that volatility in the credit loss line item in the income statement is also likely to increase, which will have a negative effect on the Group's CET 1 capital. The European Commission has proposed that the initial effect on equity, as it relates to capital adequacy ratios, is to be gradually phased-in over a five-year period between 2018 and 2023.

In March 2017, the EBA also published an opinion on transitional arrangements and credit risk adjustments to mitigate the effect of changes to IFRS 9 on prudential ratios. The EBA supports the progressive recognition of the initial impact of IFRS 9, but over a different timeframe, from 1 January 2018 until 2021, which has increased uncertainty as to the timing of transitional arrangements.

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

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

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

On 7 December 2017, the GHOS published the finalisation of the Basel III post-crisis regulatory reform agenda. This review of the regulatory framework covers credit, operational and credit valuation adjustment (CVA) risks, introduces a floor to the consumption of capital by internal ratings-based methods (IRB) and the revision of the calculation of the leverage ratio. The main features of the reform are: (i) a revised standard method for credit risk, which will improve the soundness and sensitivity to risk of the current method; (ii) modifications to the IRB methods for credit risk, including input floors to ensure a minimum level of conservatism in model parameters and limitations to its use for portfolios with low levels of noncompliance; (iii) regarding the CVA risk, and in connexion with the above, the removal of any internally modelled method and the inclusion of a standardised and basic method; (iv) regarding the operations risk, the revision of the standard method, which will replace the current standard methods and the advanced measurement approaches (AMA); (v) the introduction of a leverage ratio buffer for G-SIIs; and (vi) regarding capital consumption, it establishes a minimum limit on the aggregate results (output floor), which prevents the risk-weighted assets (RWA) of the banks generated by internal models from being lower than the 72.5% of the RWA that are calculated with the standard methods of the Basel III framework.

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

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

## *EU fiscal and banking union*

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

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

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

The SSM represents a significant change in the approach to bank supervision at a European and global level. The SSM results in the direct supervision of 119 financial institutions (as of 5 December 2017), including the Bank, and indirect supervision of around 3,500 financial institutions and is now one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to continue working on the establishment of a new supervisory culture importing best practices from the 19 national competent authorities that are part of the SSM and promoting a level playing field across participating Member States. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines; the approval of the Regulation (EU) No 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the SSM Framework Regulation); the approval of a Regulation (Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in EU law) and a set of guidelines on the application of CRR's national options and discretions, etc. In addition, this new body represents an extra cost for the financial institutions that funds it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost for the taxpayers and the real economy. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund (“SRF”). Under the intergovernmental agreement (“IGA”) signed by 26 EU Member States on 21 May 2014, contributions by banks raised at national level were transferred to the SRF. The new SRB, which is the central decision-making body of the SRM, started operating on 1 January 2015 and has fully assumed its resolution powers on 1 January 2016. The SRB is responsible for managing the SRF and its mission is to ensure that credit institutions and other entities under its remit, which face serious difficulties, are resolved effectively with minimal costs to taxpayers and the real economy. From that date onwards, the SRF is also in place, funded by contributions from European banks in accordance with the methodology approved by the Council of the EU. The SRF is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8% bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations; in particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes which were published in the Official Journal of the EU on 12 June 2014. The BRRD was required to be implemented on or before 1 January 2015, although the bail-in tool only applies

since 1 January 2016. The BRRD was partially implemented in Spain in June 2015 through Law 11/2015 of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms (“**Law 11/2015**”) and Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 (“**Royal Decree 1012/2015**”).

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

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

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

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

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

#### *United States significant regulation*

The financial services industry continues to experience significant financial regulatory reform in the United States, including from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) and changes thereto, regulation (including capital, leverage, funding, liquidity and tax requirements), policies (including fiscal and monetary policies established by central banks and financial regulators, and changes to global trade policies), and other legal and regulatory actions. Many of these reforms significantly affected and continue to affect the Group’s revenues, costs and organisational structure in the United States and the scope of its permitted activities. The Bank continues to monitor the changing political, tax and regulatory environment in the United States and believes that it is likely that there will be further material changes in the way major financial institutions like the Group are regulated in the United States. Although it remains difficult to predict the exact impact these changes will have on the Group’s business, financial condition, results of operations and cash flows for a particular future period, further reforms could result in loss of revenue, higher compliance costs, additional limits on the Group’s activities, constraints on its ability to enter into new businesses and other adverse effects on its businesses.

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

SHUSA, in particular with respect to capital and liquidity, which could limit its ability to distribute capital and liquidity to the Bank, thereby negatively affecting the Bank.

The Group is required under Section 165(d) of the Dodd-Frank Act and implementing regulations to prepare and submit annually to the Board of Governors of the Federal Reserve System (“**Federal Reserve Board**”) and the Federal Deposit Insurance Corporation (“**FDIC**”) a plan, commonly called a living will (the “**165(d) plan**”) for the orderly resolution of the Group’s subsidiaries and operations that are domiciled in the United States in the event of future material financial distress or failure. In addition, the Group’s insured depository institution (“**IDI**”) subsidiary, Santander Bank, N.A., must submit a separate IDI resolution plan (“**IDI plan**”) annually to the FDIC. The 165(d) plan and the IDI plan require substantial effort, time and cost to prepare and are subject to review by the Federal Reserve Board and the FDIC, in the case of the 165(d) plan, and by the FDIC only, in the case of the IDI plan. If, after reviewing the Bank’s 165(d) plan and any related re-submissions, the Federal Reserve Board and the FDIC jointly determine that the Group failed to cure identified deficiencies, they are authorised to impose more stringent capital, leverage or liquidity requirements, or restrictions on the Group’s growth, activities or operations, or even divestitures, which could have an adverse effect on the Group’s business. On 28 September 2017, the Federal Reserve Board and the FDIC extended by one year the next 165(d) plan submission deadline for foreign banks with limited U.S. operations, including the Bank. As a result, the due date for the Bank’s next 165(d) plan submission is 31 December 2018.

In October 2015, the U.S. federal bank regulatory agencies adopted final rules for uncleared swaps that impose variation margin requirements and will phase in initial margin requirements from 1 September 2016 through 1 September 2020, depending on the level of specified derivatives activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies generally apply to inter-affiliate transactions. The Bank is in the process of implementing the final rules and believes that these rules and similar rules being considered by regulators in other jurisdictions, and the potential conflicts and inconsistencies between them, will likely increase the Group’s costs for engaging in swaps and other derivatives activities and present compliance challenges. In addition, the U.S. Securities and Exchange Commission (“**SEC**”) will in the future adopt regulations establishing margin requirements for uncleared security-based swaps.

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

In August 2017, the Federal Reserve issued a proposal on corporate governance to enhance the effectiveness of boards of directors and refocus the Federal Reserve’s supervisory expectations for boards of directors on their core responsibilities. The corporate governance proposal consists of three parts. The first part, the board effectiveness guidance, is proposed supervisory guidance identifying the attributes of effective boards of directors and is applicable to certain bank and savings and loan holding companies with total consolidated assets of \$50 billion or more (other than those that are U.S. intermediate holding companies of foreign banking organisations), as well as to certain designated systemically important nonbank financial companies

supervised by the Federal Reserve. This part would not apply to SHUSA, the Group's U.S. intermediate holding company, but the Federal Reserve solicited comments on how the guidance could be adapted to apply to U.S. intermediate holding companies, signaling that SHUSA could fall within the scope of a related future proposal. The board effectiveness guidance would be used in connection with the supervisory assessment of board effectiveness under a large financial institution rating system that the Federal Reserve proposed concurrently with the supervisory guidance on corporate governance. The second and third parts of the corporate governance proposal would revise certain supervisory expectations for boards and clarify expectations for communicating supervisory findings to an institution's board of directors and senior management.

Each of these aspects of the Dodd-Frank Act, as well as other aspects such as over-the-counter derivatives regulation, changes thereto and other changes in U.S. legislation or regulations relating to the financial services industry, may directly or indirectly impact various aspects of the Group's business. The full spectrum of risks that result from pending or future U.S. financial services, legislation or regulations cannot be fully known; however, such risks could be material and the Group could be materially and adversely affected by them.

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

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

In addition to these capital and liquidity requirements, the Federal Reserve Board adopted a final rule on 15 December 2016 that establishes certain TLAC, long-term debt and clean holding company requirements in the United States generally consistent with the FSB's international TLAC standard. U.S. IHCs, including SHUSA, must comply with all applicable requirements under the final rule by 1 January 2019. Compliance with the final TLAC rule could result in increased funding costs for SHUSA and the Bank.

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

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

In addition to the foregoing, U.S. bank regulatory agencies from time to time take supervisory actions under certain circumstances that restrict or limit a financial institution's activities. In some instances, the Group is subject to significant legal restrictions on its ability to publicly disclose these actions or the full details of these actions. Furthermore, as part of the regular examination process, the Group's U.S. banking regulators may advise the Group's U.S. banking subsidiaries to operate under various restrictions as a prudential matter. Under the U.S. Bank Holding Company Act, the Federal Reserve Board has the authority to disallow the Group and its U.S. banking subsidiaries from engaging in certain categories of new activities in the United States or acquiring shares or control of other companies in the United States. Such actions and restrictions currently applicable to the Group or its U.S. banking subsidiaries could adversely affect the Group's costs and revenues. Moreover, efforts to comply with non-public supervisory actions or restrictions could require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions could have a material adverse effect on

the Group's business and results of operations; and the Group may be subject to significant legal restrictions on its ability to publicly disclose these matters or the full details of these actions.

In addition to such confidential actions and restrictions, the Group has been, and continues to be, subject to public supervisory actions in the United States. On 15 September 2014, SHUSA and the Federal Reserve Bank of Boston ("**FRB Boston**") had executed a written agreement relating to a subsidiary's declaration and payment of dividends in the second quarter of 2014 without the Federal Reserve Board's approval. Under the written agreement, SHUSA had agreed to certain actions relating to planned capital distributions and to subject future capital distributions to the prior written approval of the Federal Reserve Board. On 24 August 2017, the Federal Reserve announced the termination of this enforcement action. Separately, in July 2015, SHUSA entered into a written agreement with the FRB Boston and agreed to make enhancements with respect to, among other matters, board oversight of the consolidated organisation, risk management, capital planning and liquidity risk management. In addition, in March 2017, SHUSA and Santander Consumer USA Inc. ("**SCUSA**") entered into a written agreement with the FRB Boston pursuant to which SHUSA and SCUSA agreed to submit written plans acceptable to the FRB Boston to strengthen board oversight of the management and operations of SCUSA and to strengthen board and senior management oversight of SCUSA's risk management program, SCUSA agreed to submit a written revised compliance risk management program acceptable to the FRB Boston and SHUSA agreed to submit written revisions to its firm-wide internal audit program of SCUSA's compliance risk management program. A response to this written agreement was submitted to the Federal Reserve of Boston in May 2017. The written agreements between SHUSA and the FRB Boston dated 2 July 2015 and 21 March 2017 have not been terminated and remain in place.

#### *Banking reform in the UK*

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

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

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

The Group's UK subsidiaries are subject to the ring-fencing requirement under the Banking Reform Act and, as a consequence, they will need to separate their core activities from their prohibited activities. The Group's UK subsidiaries continue to work closely with regulators on developing their business and operating model to comply with the ring-fencing requirements. In light of the changeable macro-environment, the board of Santander UK plc ("**Santander UK**") concluded in December 2016 that the Group could provide greater certainty for its customers with a 'wide' ring-fence structure, rather than the 'narrow' ring-fence structure originally envisaged as this will also allow the Group to maintain longer term flexibility. Under this revised model Santander UK, the ring-fenced bank, will serve the Group's retail, commercial and corporate customers. The majority of the Group's customer loans and assets as well as customer deposits and liabilities

will remain within Santander UK, the Group's ring-fenced bank. Prohibited activities which cannot continue to be transacted within the ring-fenced bank principally include the Group's derivatives business with financial institutions and certain corporates, elements of its short term markets business and its branches in Jersey, Isle of Man and the United States (US). Abbey National Treasury Services plc will no longer constitute the non-ring fenced bank and its activities will be revised as part of the new ring-fenced model and customers who cannot be served or services which are not permitted within a ring-fenced bank will be transferred to Banco Santander, S.A. or its London Branch. The Group intends to complete the implementation of its ring-fence plans in advance of the legislative deadline of 1 January 2019. The ring-fencing model that the Group's UK subsidiaries ultimately implement will depend on a number of factors including economic conditions in the UK and globally and will entail a legal and organisational restructuring of the Group's UK subsidiaries' businesses and operations, including transfers of customers and transactions through a ring-fencing transfer scheme. In light of the scale and complexity of this process, the operational and execution risks for the Group's UK subsidiaries may be material. This restructuring and migration of customers and transactions could have a material impact on how the Group's UK subsidiaries conduct their business. The Group is unable to predict with certainty the attitudes and reaction of its UK customers.

The restructuring of the UK subsidiaries' business pursuant to the developing ring-fencing regime will take a substantial amount of time and cost to implement, the separation process and the structural changes which may be required could have a material adverse effect on its business, operating results, financial condition, profitability and prospects.

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

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

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

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

Some of the regulatory regimes in the relevant jurisdictions in which the Group operates, require the Group to be in compliance across all aspects of its business, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to comply with the relevant regulations, there would be a risk of an adverse impact on its business from sanctions, fines or other actions imposed by the regulatory authorities. Customers of financial services institutions, including the Group's customers, may seek redress if they consider that they have suffered loss as a result of the mis-selling of a particular product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and the evolution of judgments by the relevant authorities, it is possible that an

adverse outcome in some matters could harm the Group's reputation or have a material adverse effect on its operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing the Group's profitability.

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

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

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

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

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

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

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

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

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

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

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

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

### ***Liquidity and Financing Risks***

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

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

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

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

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

The Group cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, it will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of

funding instruments or the liquidation of certain assets. If this were to happen, the Group could be materially adversely affected.

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

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Rating agencies regularly evaluate the Group, and their ratings of its debt are based on a number of factors, including the Group's financial strength and conditions affecting the financial services industry generally. In addition, due to the methodology of the main rating agencies, the Group's credit rating is affected by the rating of Spanish sovereign debt. If Spain's sovereign debt is downgraded, the Group's credit rating would also likely be downgraded by an equivalent amount.

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

Banco Santander's long-term debt is currently rated investment grade by the major rating agencies: A3 stable outlook by Moody's Investors Service España, S.A., A- stable outlook by Standard & Poor's Ratings Services and A- stable outlook by Fitch Ratings Ltd. In February 2017, Standard & Poor's revised the outlook from stable to positive reflecting the revised funding plans announced by the Group, which give Standard & Poor's comfort that the Group will build a substantial additional loss absorbing capacity buffer over the next two years. In June 2017, Standard & Poor's revised the outlook from positive to stable as a result of the risks associated with the acquisition of Banco Popular (for more information see "*Risks relating to the acquisition of Banco Popular*").

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

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

The Group conducts substantially all of its material derivative activities through Banco Santander and Santander UK. The Group estimates that as of 31 December 2017, if all the rating agencies were to downgrade Banco Santander's long-term senior debt ratings by one notch the Group would be required to post up to €209 million in additional collateral pursuant to derivative and other financial contracts. A hypothetical two-notch downgrade would result in a further requirement to post up to €193 million in additional collateral. The Group estimates that as of 31 December 2017, if all the rating agencies were to downgrade Santander UK's long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in contractual outflows from Santander UK's total liquid assets of £3.9 billion of cash and additional collateral that Santander UK would be required to post under the terms of secured funding and derivatives contracts. A hypothetical two-notch downgrade would result in a further outflow of £0.2 billion of cash and collateral under secured funding and derivatives contracts.

While certain potential impacts of these downgrades are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of the Group's long-term credit rating precipitates downgrades to the Group's short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than the preceding hypothetical examples, depending upon certain factors including which credit rating agency downgrades the Group's credit rating, any management or

restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from loss of unsecured funding (such as from money market funds) or loss of secured funding capacity. Although unsecured and secured funding stresses are included in the Group's stress testing scenarios and a portion of its total liquid assets is held against these risks, a credit rating downgrade could still have a material adverse effect on the Group.

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

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

### **Credit Risks**

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

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

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

Mortgage loans are one of the Group's principal assets, comprising 47% of its loan portfolio as of 31 December 2017. The Group's exposure is concentrated in residential mortgage loans, especially in Spain and the United Kingdom. During late 2007, following an earlier period of increased demand, the housing market began to adjust downward in Spain and the United Kingdom as a result of excess supply (particularly in Spain) and higher interest rates. From 2008 to 2013, as economic growth stalled in Spain and the United Kingdom, persistent housing oversupply, decreased housing demand, rising unemployment, subdued earnings growth, greater pressure on disposable income, a decline in the availability of mortgage finance and the continued effect of global market volatility caused home prices to decline, while mortgage delinquencies and forbearances increased.

As a result of these and other factors, the Group's NPL ratio increased from 0.94% at 31 December 2007, to 2.02% at 31 December 2008, to 3.24% at 31 December 2009, to 3.54% at 31 December 2010, to 3.90% at 31 December 2011, to 4.54% 31 December 2012 and to 5.64% at 31 December 2013. The trend changed in 2014 as the Group's NPL ratio decreased to 5.19% at 31 December 2014, to 4.36% at 31 December 2015 and to

3.93% at 31 December 2016. At 31 December 2017 the NPL ratio stood at 4.08% impacted by the acquisition of Banco Popular (see “—Risks relating to the acquisition of Banco Popular”). The Group can provide no assurance that its NPL ratio will not increase again as a result of the aforementioned and other factors. High unemployment rates, coupled with declining real estate prices, could have a material adverse impact on the Group’s mortgage payment delinquency rates, which in turn could have a material adverse effect on its business, financial condition and results of operations.

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

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

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

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

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

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

## **Market Risks**

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

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

- interest income/ (charges);
- the volume of loans originated;
- credit spreads;
- the market value of the Group’s securities holdings;
- the value of loans and deposits; and
- the value of the Group’s derivatives transactions.

Interest rates are sensitive to many factors beyond the Group’s control, including increased regulation of the financial sector, monetary policies and domestic and international economic and political conditions.

Variations in interest rates could affect the interest earned on the Group's assets and the interest paid on its borrowings, thereby affecting its net interest income/ (charges), which comprises the majority of its revenue, reducing the Group's growth rate and potentially resulting in losses. In addition, costs the Group incurs as it implements strategies to reduce interest rate exposure could increase in the future (which, in turn, will impact its results).

Increases in interest rates may reduce the volume of loans the Group originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may reduce the value of the Group's financial assets and may reduce gains or require the Group to record losses on sales of its loans or securities.

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

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

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

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

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

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

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

The Group enters into derivative transactions for trading purposes as well as for hedging purposes. The Group is subject to market, credit and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

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

### **Risk Management**

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

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

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

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

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

## **Technology Risks**

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

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

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

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

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

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

The Group has seen in recent years computer systems of companies and organisations being targeted, not only by cyber criminals, but also by activists and rogue states. The Group has been and continues to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could disrupt the Group's electronic systems used to service its customers. As attempted attacks continue to evolve in scope and sophistication, the Group may incur significant costs in order to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to its customers. If the Group fails to effectively manage its cyber security risk, for example by failing to update its

systems and processes in response to new threats, this could harm its reputation and adversely affect its operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets. In addition, the Group may also be impacted by cyber-attacks against national critical infrastructures of the countries where it operates, for example, the telecommunications network. The Group's information technology systems are dependent on such national critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect its ability to service its customers. As the Group does not operate such national critical infrastructure, it has limited ability to protect its information technology systems from the adverse effects of such a cyber-attack.

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

### **General Business and Industry Risks**

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

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

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

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

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

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

The substantial majority of the Group's operations are conducted through its financial services subsidiaries. As a result, the Group's ability to pay dividends, to the extent it decides to do so, depends in significant part on the ability of its subsidiaries to generate earnings and to pay dividends to the Group. Payment of dividends,

distributions and advances by the Group's subsidiaries will be contingent upon its subsidiaries' earnings and business considerations and is or may be limited by legal, regulatory and contractual restrictions. Additionally, the Group's right to receive any assets of any of its subsidiaries as an equity holder of such subsidiaries, upon their liquidation or reorganisation, will be effectively subordinated to the claims of the Group's subsidiaries' creditors, including trade creditors.

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

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

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

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

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

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

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

*The Group's ability to maintain its competitive position depends, in part, on the success of new products and services the Group offers to its clients and its ability to offer products and services that meet clients'*

*needs throughout the life cycle of such products or services, and the Group may not be able to manage various risks it faces as it expands its range of products and services that could have a material adverse effect on the Group*

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

As the Group expands the range of its products and services, some of which may be at an early stage of development in the markets of certain regions where it operates, the Group will be exposed to new and potentially increasingly complex risks, such as the conduct risk in the relationship with clients, and development expenses. The Group's employees and risk management systems, as well as its experience and that of its partners may not be sufficient to enable it to properly manage such risks. In addition, the cost of developing products that are not launched is likely to affect the results of operations of the Group. Any or all of these factors, individually or collectively, could have a material adverse effect on the Group.

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

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

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

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

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

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

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

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

The Group has made business acquisitions in recent years and may make further acquisitions in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written-down if the Group's valuation assumptions are required to be reassessed as a result of any deterioration in their underlying profitability, asset quality and other relevant matters. Impairment testing in respect of goodwill is performed annually, or more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. Goodwill impairment does not, however, affect the Group's regulatory capital. While no material impairment of goodwill was recognised at Group level in 2015 or 2016, in 2017 the Group recognised €699 million in SCUSA and €100 million in Carfinco Financial Group (see Note 17 to the Group's consolidated financial statements). There can be no assurances that the Group will not have to write down the value attributed to goodwill in the future, which would adversely affect its results and net assets.

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

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

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

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

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

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

Maintaining a positive reputation is critical to protect the Group's brand, to attract and retain customers, investors and employees and to conduct business transactions with counterparties. Damage to the Group's reputation can therefore cause significant harm to its business and prospects. Harm to the Group's reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by the Group's employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, dealing with sectors that are not well perceived by the public, dealing with customers in sanctions lists, rating downgrades, significant variations in our share price throughout the year, compliance failures, unethical behaviour, and the activities of customers and counterparties. Further, negative publicity regarding the Group may result in harm to its prospects.

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

The Group could suffer significant reputational harm if it fails to identify and manage potential conflicts of interest properly. The failure, or perceived failure, to adequately address conflicts of interest could affect the willingness of clients to deal with the Group, or give rise to litigation or enforcement actions against it. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Group.

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

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

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

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

## **Financial Reporting and Control Risks**

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

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

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

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

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

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

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

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

***Foreign Private Issuer and Other Risks***

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

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

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

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

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

### 3. Risks in relation to the Instruments

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

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

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

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

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

Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest. The resolution tools and powers are: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a “bridge institution” (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer certain categories of assets (including impaired or problematic assets) to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down (including to zero) certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including senior debt securities and subordinated debt securities to equity (the general bail-in tool), which equity could also be subject to any future application of the general bail-in tool.

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

Condition 21 provides for the contractual recognition by the holders of the Instruments (the “**Holders**”) of conversion or write down upon bail-in.

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

As a result, Additional Tier 1 instruments will be written down or converted before Tier 2 instruments or subordinated debt that does not qualify as Additional Tier 1 or Tier 2 instruments. Any such Tier 2 instruments or subordinated debt would only be written down or converted if the reduction of Additional Tier 1 instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted and, accordingly, senior debt instruments would only be written down or converted if the reduction of subordinated instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted.

Under Article 92 of Law 22/2003 dated 9 July 2003 (*Ley Concursal*) (the “**Insolvency Law**”) read in conjunction with Additional Provision 14.3° of Law 11/2015, the Issuer will meet subordinated claims after payment in full of unsubordinated claims, but before distributions to shareholders, in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated liabilities in respect of principal (firstly, those that do not qualify as Additional Tier 1 or Tier 2 capital; secondly, those that qualify as Tier 2 capital instruments and thirdly, those that qualify as Additional Tier 1 capital instruments); (iii) interest (including accrued and unpaid interest due on the Instruments); (iv) fines; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in Articles 61, 62, 68 and 69 of the Insolvency Law, wherever the court rules, prior to the administrators’ report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

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

In addition to the general bail-in tool, the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down (including to zero) or convert into equity capital instruments such as the Subordinated Tier 2 Instruments at the point of non-viability (“**Non-Viability Loss Absorption**”). The point of non-viability of an institution is the point at which the FROB, the Single Resolution Board established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of the Spanish Bail-in Power from time to time (each, a “**Relevant Resolution Authority**”) as appropriate, determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or converted into equity or extraordinary public support is to be provided and without such support the Relevant Resolution Authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Resolution Authority in accordance with Article 38.3 of Law 11/2015. These additional measures may be imposed prior to or in combination with any exercise of any other resolution tool or power (where the conditions for resolution referred to above are met).

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

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

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

There remains uncertainty as to how or when the Spanish Bail-in Power and/or, in the case of Subordinated Tier 2 Instruments, the Non-Viability Loss Absorption may be exercised and how it would affect the Group and the Instruments. The determination that all or part of the principal amount of the Instruments will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control. Although there are proposed pre-conditions for the exercise of the Spanish Bail-in Power, there remains uncertainty regarding the specific factors which the Relevant Resolution Authority would consider in deciding whether to exercise the bail-in power with respect to the financial institution and/or securities issued or guaranteed by that institution. In particular, in determining whether an institution is failing or likely to fail, the Relevant Resolution Authority shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, although the EBA has recently issued guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments and on the rate of conversion of debt to equity in bail-in, the final criteria that the Relevant Resolution Authority would consider in exercising any bail-in power are likely to provide it with discretion. Therefore, Holders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such Spanish Bail-in Power and/or, in the case of Subordinated Tier 2 Instruments, the Non-Viability Loss Absorption. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any such powers may occur.

The uncertainty may adversely affect the value of Holders' investments in the Instruments and the price and trading behaviour of the Instruments may be affected by the threat of a possible exercise of any power under Law 11/2015 (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Resolution Authority may exercise any such power without providing any advance notice to the Holders.

In addition, the preparation by the EBA of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission is pending. These acts could be potentially relevant to determining when or how a Relevant Resolution Authority may exercise the Spanish Bail-in Power and/or, in the case of Subordinated Tier 2 Instruments, the Non-Viability Loss Absorption. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a Holder under, and the value of a Holder's investment in, the Instruments.

In addition to the BRRD, it is possible that the application of other relevant laws, such as the Basel Committee on Banking Supervision package of reforms to the regulatory capital framework for internationally active banks designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in such a way as to result in the Instruments absorbing losses in the manner described above. Any actions by the Relevant Resolution Authority pursuant to the ones granted by Law 11/2015, or other measures or proposals relating to the resolution of institutions, may adversely affect the rights of Holders, the price or value of an investment in the Instruments and/or the Group's ability to satisfy its obligations under the Instruments.

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

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

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

## *Change of law*

The Terms and Conditions are subject to English law, except for Conditions 3 and 14 which are subject to Spanish law, as in effect as at the date of this Base Prospectus. Changes in European, English or Spanish laws or their official interpretation by regulatory authorities after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Instruments. Such changes in law or official interpretation of such laws may include changes in statutory, tax and regulatory regimes during the life of the Instruments, which may have an adverse effect on an investment in the Instruments. No assurance can be given as to the impact of any possible judicial decision or change to such laws or official interpretation of such laws or administrative practices after the date of this Base Prospectus.

In particular, in relation to the Senior Subordinated Instruments, the Senior Non Preferred Instruments and Ordinary Senior Instruments (each as defined below) eligible to comply with the TLAC/MREL Requirements, on 23 November 2016, the European Commission published proposals for European Directives amending the BRRD and the CRD IV and proposals for European Regulations amending the SRM Regulation and CRR which aim at implementing the TLAC/MREL Requirements. Among others, the European Commission proposed to amend the BRRD in order to facilitate the creation of a new asset class of “non-preferred” senior debt which will be eligible to count as TLAC and MREL. The recognition of the “non-preferred” senior debt has been implemented in the EU through the Directive (EU) 2017/2399 amending the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy which was published in the Official Journal of the EU on 27 December 2017. It has to be transposed into national law by the Member States by 29 December 2018, provided that the relevant member states have not been previously legislated in the sense of such Directive. In Spain, the new class of “non preferred” senior debt and its insolvency ranking were introduced earlier through the RDL 11/2017, which entered into force on 25 June 2017 and amended Additional Provision 14 of Law 11/2015, which paragraph 2 provides for the legal recognition of unsubordinated and unsecured senior non preferred obligations (*créditos ordinarios no preferentes*) in Spain.

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

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

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

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

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

In the case of Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments eligible to comply with the TLAC/MREL Requirements, redemption at the option of the Issuer or for taxation reasons will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority (as these terms are defined in the Terms and Conditions) if and as required therefor under Applicable Banking Regulations (as defined in the Terms and Conditions) and may only take place in accordance with Applicable Banking Regulations in force at the relevant time. See more detail in “—*The Subordinated Instruments, the*

*Senior Non Preferred Instruments and certain Ordinary Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event” below.*

Early redemption features (including any redemption of the Instruments at the option of the Issuer pursuant to Condition 5.06 or for taxation reasons pursuant to Condition 5.02) is likely to limit the market value of the Instruments. During any period when the Issuer may redeem Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period or at any time where there is any actual increase in the likelihood that the Issuer will be able to redeem the Instruments early.

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

### *Suitability*

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

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

- (i) has sufficient knowledge and expertise to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Base Prospectus, taking into account that the Instruments may only be a suitable investment for professional or institutional investors;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including where the currency for payments in respect of the Instruments is different from the potential investor’s currency;
- (iv) understands thoroughly the terms of the Instruments, including the provisions relating to their status, and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear applicable risks.

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

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

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

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

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

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

*The Subordinated Instruments, the Senior Non Preferred Instruments and, to the extent so specified in the relevant Final Terms, the Ordinary Senior Instruments, provide for limited events of default. Holders of Instruments may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under Law 11/2015*

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

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

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

*The Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event*

The Issuer may, at its option, redeem all, but not some only, of the Subordinated Instruments, the Senior Non Preferred Instruments or certain Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms, as applicable, at any time at their early redemption amount, together with accrued but unpaid interest up to (but excluding) the date of redemption, upon or following the occurrence of a Capital Disqualification Event (in the case of Tier 2 Subordinated Instruments only) or a TLAC/MREL Disqualification Event (as these terms are defined in the Terms and Conditions).

The early redemption of the Subordinated Instruments, the Senior Non Preferred Instruments or the Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event, as applicable, will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

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

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

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

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

*The qualification of the Senior Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments as TLAC/MREL-Eligible Instruments is subject to uncertainty*

The Senior Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments may be intended to be TLAC/MREL-Eligible Instruments (as defined in the Terms and Conditions) under the Applicable TLAC/MREL Regulations. However, there is uncertainty regarding the final

substance of the Applicable TLAC/MREL Regulations and how those regulations, once enacted, are to be interpreted and applied and the Issuer cannot provide any assurance that the Senior Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments will or may be (or thereafter remain) TLAC/MREL-Eligible Instruments.

There currently are no European laws or regulations implementing the TLAC concept, which is set forth in the FSB TLAC Term Sheet (as defined in the Terms and Conditions). In November 2016, the European Commission proposed directives and regulations intended to give effect to the FSB TLAC Term Sheet and to modify the requirements for MREL eligibility. While the Terms and Conditions may be consistent with the European Commission's proposals, these proposals have not yet been interpreted and when finally adopted the final Applicable TLAC/MREL Regulations may be different from those set forth in these proposals.

Because of the uncertainty surrounding the substance of the final regulations implementing the TLAC requirements and their interpretation and application and any potential changes to the regulations giving effect to MREL, the Issuer cannot provide any assurance that the Senior Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments will or may ultimately be TLAC/MREL-Eligible Instruments.

If for any reasons the Senior Subordinated Instruments, the Senior Non Preferred Instruments and the Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms are not TLAC/MREL-Eligible Instruments or if they initially are TLAC/MREL-Eligible Instruments and subsequently become ineligible due to a change in Spanish law or Applicable TLAC/MREL Regulations, then a TLAC/MREL Disqualification Event (as defined in the Terms and Conditions) will occur, with the consequences indicated in the Terms and Conditions. See “—*The Subordinated Instruments, the Senior Non Preferred Instruments and certain Ordinary Senior Instruments may be redeemed prior to maturity upon the occurrence of a Capital Disqualification Event or a TLAC/MREL Disqualification Event*” and “—*The Instruments may be subject to substitution and/or variation without Holder consent*”.

#### *The Instruments may be subject to substitution and/or variation without Holder consent*

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

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

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

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

#### *Risks relating to the Commissioner*

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

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

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

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

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

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

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

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

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

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

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

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

under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

### *Taxation in Spain*

Article 44 of Royal Decree 1065/2007 (as amended among others by Royal Decree 1145/2011 of 29 July) (“**Royal Decree 1065/2007**”) sets out the reporting obligations applicable to preferred securities and debt instruments issued under Law 10/2014. The procedures apply to income deriving from preferred shares and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

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

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

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

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

### *The value of and return on any Instruments linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks*

Reference rates and indices such as Euro Interbank Offered Rate (“**EURIBOR**”) or London Interbank Offered Rate (“**LIBOR**”) and other interest rate or other types of rates and indices which are deemed to be “benchmarks” (each a “**Benchmark**” and together, the “**Benchmarks**”), to which the interest on securities may be linked, have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. This has resulted in regulatory reform and changes to existing Benchmarks, with further change anticipated. Such reform of Benchmarks includes the BMR which was published in the official journal on 29 June 2016. In addition, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcement**”). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The BMR applies to the provision of Benchmarks, the contribution of input data to a Benchmark and the use of a Benchmark within the EU. It will, among other things, (i) require Benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject

to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities such as the Issuer of Benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The potential elimination of the LIBOR benchmark or any other Benchmark, or changes in the manner of administration of any Benchmark, as a result of the BMR or otherwise, could require an adjustment to the Terms and Conditions, or result in other consequences, in respect of any Instruments linked to such Benchmark. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or be discontinued. For example, if any Benchmark is discontinued, then the Rate of Interest on the Reset Instruments, the Floating Rate Instruments and the CMS-Linked Instruments will be determined by the fallback provisions provided for under Condition 4, although such provisions, being dependent in part upon the provision by Reference Banks of offered quotations for the relevant Benchmark, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time). This may result in the effective application pursuant to the Terms and Conditions of a fixed rate based on the rate or rates which applied or were offered in the previous Interest Period when such Benchmark was available. Any change in the performance of a Benchmark or its discontinuation could have a material adverse effect on the value of, and return on, any such Instruments.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of Benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Such factors may have the following effects on certain Benchmarks including EURIBOR and LIBOR: (i) discourage market participants from continuing to administer or contribute to the Benchmark; (ii) trigger changes in the rules or methodologies used in the Benchmark or (iii) lead to the disappearance of the Benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Instruments linked to or referencing to a Benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the BMR reforms in making any investment decision with respect to any Instruments linked to or referencing a Benchmark.

#### *Partly-paid Instruments*

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

#### *Inverse Floating Rate Instruments*

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

#### *Zero Coupon Instruments*

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

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

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

#### *Risks relating to Subordinated Instruments and Senior Non Preferred Instruments*

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

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

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

In the case of any exercise of the Spanish bail-in power by the Relevant Resolution Authority, the sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for the principal amount of Tier 2 instruments (such as the Tier 2 Subordinated Instruments if they qualify as such as it is expected) to be written-down or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 instruments (which is expected to be the case of Senior Subordinated Instruments) in accordance with the hierarchy of claims provided in the Insolvency Law and for the latter to be written-down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any other eligible liabilities (such as the Ordinary Senior Instruments and Senior Non Preferred Instruments), in accordance with the hierarchy of claims provided in the applicable insolvency legislation. Subordinated Instruments which constitute Tier 2 instruments may be subject to non-viability loss absorption, which may be imposed prior to or in combination with any exercise of the Spanish bail-in power. See "*Risks Related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities*".

In the event of insolvency, after payment in full of unsubordinated claims, but before distributions to shareholders, under Article 92 of the Insolvency Law read in conjunction with Additional Provision 14.3° of Law 11/2015, the Issuer will meet subordinated claims after payment in full of unsubordinated claims, but before distributions to shareholders, in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated liabilities in respect of principal (firstly, those that do not qualify as Additional Tier 1 or Tier 2 instruments under Additional Provision 14.3°(a) of Law 11/2015 -which is expected to be the case of Senior Subordinated Instruments-, secondly, those that qualify as Tier 2 instruments under Additional Provision 14.3°(b) of Law 11/2015 -which is expected to be the case of Tier 2 Subordinated Instruments- and thirdly, Additional Tier 1 instruments under Additional Provision 14.3°(c) of Law 11/2015); (iii) interest (including accrued and unpaid interest due on the Subordinated Instruments); (iv) fines; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in Articles 61, 62, 68 and 69 of the Insolvency Law, wherever the court rules, prior to the administrators' report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

*The Senior Non Preferred Instruments are senior non preferred obligations and are junior to certain obligations*

The Senior Non Preferred Instruments constitute direct, unconditional, unsubordinated and unsecured senior non preferred obligations (*créditos ordinarios no preferentes*) of the Issuer in accordance with Additional Provision 14.2° of Law 11/2015. Upon the insolvency of the Issuer, the payment obligations of the Issuer in respect of principal under the Senior Non Preferred Instruments rank, subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise) (and unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Article 92.1° or 92.3° to 92.7° of the Insolvency Law), (a) *pari passu* among themselves and with any Senior Non Preferred Liabilities, (b) junior to the Senior Higher Priority Liabilities (and, accordingly, upon the insolvency of the Issuer the claims in respect of Senior Non

Preferred Instruments will be met after payment in full of the Senior Higher Priority Liabilities), and (c) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer in accordance with Article 92 of the Insolvency Law.

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

In addition, if the Issuer enters into resolution, its eligible liabilities (including the Senior Non Preferred Instruments) will be subject to bail-in, meaning potential write-down or conversion into equity securities or other instruments. The sequence of any resulting write-down or conversion of eligible instruments under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for claims to be written-down or converted into equity in accordance with the hierarchy of claims provided in the applicable insolvency legislation. Because the Senior Non Preferred Instruments are senior non preferred liabilities (*créditos ordinarios no preferentes*) the Issuer expects them to be written down or converted in full after any subordinated obligations of the Issuer under article 92 of the Insolvency Law and before any of the Issuer's Senior Higher Priority Liabilities are written down or converted. See “—Risks related to early intervention and resolution - Law 11/2015 enables a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under Law 11/2015 could materially affect the value of any debt securities”.

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

#### *Senior Non Preferred Instruments are new types of instruments for which there is little trading history*

On 25 June 2017, RDL 11/2017 entered into force amending Additional Provision 14 of Law 11/2015, which paragraph 2 provides for the legal recognition of unsubordinated and unsecured senior non preferred obligations (*créditos ordinarios no preferentes*) in Spain. Although certain Spanish financial institutions have issued senior non-preferred securities or securities with similar features in the past, there is little trading history for securities of Spanish financial institutions with this ranking. Market participants, including credit rating agencies, are in the initial stages of evaluating the risks associated with senior non preferred securities. The credit ratings assigned to senior non preferred securities such as the Senior Non Preferred Instruments may change as the rating agencies refine their approaches, and the value of such securities may be particularly volatile as the market becomes more familiar with them. It is possible that, over time, the credit ratings and value of senior non preferred securities such as the Senior Non Preferred Instruments will be lower than those expected by investors at the time of issuance of the Senior Non Preferred Instruments. If so, Holders may incur losses in respect of their investments in the Senior Non Preferred Instruments.

## OVERVIEW OF THE PROGRAMME

*The following overview is qualified in its entirety by the remainder of this Base Prospectus.*

|                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuer:</b>                 | Banco Santander, S.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>LEI Code:</b>               | 5493006QMFDDMYWIAM13                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Risk Factors:</b>           | Investing in Instruments issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Instruments are discussed under “ <i>Risk Factors</i> ” above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Description:</b>            | Programme for the issuance of debt instruments.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Size:</b>                   | Up to €25,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Arrangers:</b>              | Banco Santander, S.A. and Barclays Bank PLC.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Dealers:</b>                | <p>Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Mizuho International plc, Morgan Stanley &amp; Co. International plc, Natixis, Nomura International plc, Société Générale, The Royal Bank of Scotland plc (trading as NatWest Markets), UBS Limited and UniCredit Bank AG</p> <p>The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to “<b>Dealers</b>” are to the persons listed above as Dealers and to such additional persons that are appointed as Dealers in respect of the whole Programme (and whose appointment has not been terminated) and all persons appointed as a Dealer in respect of one or more Tranches.</p> |
| <b>Issue and Paying Agent:</b> | The Bank of New York Mellon, London Branch                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Method of Issue:</b>        | The Instruments will be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a “ <b>Series</b> ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Instruments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

of each Series being intended to be interchangeable with all other Instruments of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms for such Tranche (the “**Final Terms**”).

**Issue Price:**

Instruments may be issued at par or at a discount to par or a premium over par and on a fully paid basis, as specified in the relevant Final Terms. The issue price and the principal amount of the relevant tranche of Instruments will be determined before filing of the relevant Final Terms of each tranche on the basis of then prevailing market conditions.

**Form of Instruments:**

The Instruments may be Bearer Instruments or Registered Instruments. Bearer Instruments may be issued in NGN form and Registered Instruments may be held under the NSS, in each case, to allow Eurosystem eligibility.

Unless otherwise specified in the Final Terms, each Tranche of Bearer Instruments having an original maturity of more than one year and that is being issued in compliance with the U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) will initially be represented by a Temporary Global Instrument and each Tranche of Bearer Instruments having an original maturity of one year or less will initially be represented by a Permanent Global Instrument which, in each case, will (i) if the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg; or (ii) if the Global Instruments are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a Common Depositary for Euroclear and Clearstream, Luxembourg, or as otherwise agreed between the Issuer and the relevant Dealer. Interests in temporary Global Instruments will be exchangeable for interests in a permanent Global Instrument or, if so stated in the relevant Final Terms, for Definitive Instruments after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership. If specified in the

relevant Final Terms, interests in permanent Global Instruments will be exchangeable for Definitive Instruments.

Registered Instruments will be represented by Individual Certificates, one Individual Certificate being issued in respect of each Holder's entire holding of Registered Instruments of one Series and may be represented by a Global Registered Instrument. Registered Instruments which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Registered Instrument is not to be held under the NSS, in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee for both or (ii) if the Global Registered Instrument is to be held under the NSS, in the name of a nominee of the Common Safekeeper and the relevant Individual Certificate(s) will be delivered to the appropriate depositary, a Common Depositary or Common Safekeeper, as the case may be.

The provisions governing the exchange of interests in Global Instruments for other Global Instruments and Definitive Instruments are described in "*Summary of Provisions Relating to the Instruments while in Global Form*".

**Clearing Systems:**

Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.

**Currencies:**

The Instruments may be denominated in any currency subject to compliance with all applicable legal and/or regulatory requirements and/or central bank requirements.

**Maturities:**

Instruments may be issued with any maturity subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Tier 2 Subordinated Instruments will have a maturity of not less than five years in accordance with Applicable Banking Regulations.

Where Instruments have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to

expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer.

**Specified Denomination:**

Instruments will be in such denominations as may be specified in the relevant Final Terms save that (i) in the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Instruments); and (ii) unless otherwise permitted by then current laws and regulations, Instruments (including Instruments denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Fixed Rate Instruments:**

Fixed Rate Instruments bear interest at the fixed rate(s) of interest specified in the relevant Final Terms. The rate of interest will remain constant or may be altered on certain reset dates specified in the relevant Final Terms.

**Floating Rate Instruments:**

Floating Rate Instruments bear interest at a variable rate either determined (a) on the basis of a floating rate set out in the 2006 ISDA Definitions, or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service, together with the (positive or negative) margin (if any).

**Zero Coupon Instruments:**

Zero Coupon Instruments will be offered and sold at a discount to, or at 100 per cent. of, their principal amount. Zero Coupon Instruments do not bear interest and an investor will not receive any return on the Instruments until redemption.

**CMS-Linked Instruments:**

CMS-Linked Instruments bear interest (if any) at a rate determined by reference to one or more swap rates.

**Interest Periods and Interest Rates:**

The length of interest periods for the Instruments and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Instruments may have a maximum interest rate, a minimum interest rate, or both. The use of interest

accrual periods permits the Instruments to bear interest at different rates in the same interest period. All such information will be set out in the Final Terms.

**Redemption:**

Instruments may be redeemable at the redemption amount specified in the relevant Final Terms subject to compliance with all applicable legal and/or regulatory requirements. Early redemption will be permitted for taxation reasons or, in the case of Ordinary Senior Instruments if so specified in the relevant Final Terms, following an Event of Default or, in the case of Senior Subordinated Instruments, Senior Non Preferred Instruments and if so specified in the relevant Final Terms, the Ordinary Senior Instruments, upon the occurrence of a TLAC/MREL Disqualification Event, or, in the case of Tier 2 Subordinated Instruments, upon the occurrence of a Capital Disqualification Event, but otherwise early redemption will be permitted only to the extent specified in the relevant Final Terms.

Any early redemption of Subordinated Instruments, Senior Non Preferred Instruments or Ordinary Senior Instruments eligible to comply with the TLAC/MREL Requirements will be subject to the prior consent of the competent authorities and/or relevant resolution authorities, to the extent required, in accordance with applicable banking regulations.

**Status of Instruments:**

Instruments may be either Senior Instruments (in which case they will be Ordinary Senior Instruments or Senior Non Preferred Instruments) or Subordinated Instruments (in which case they will be Senior Subordinated Instruments or Tier 2 Subordinated Instruments) as more fully described in Condition 3 (*Status of the Instruments*).

**Ratings:**

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

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

**Taxation:**

All payments of principal and interest in respect of the Instruments will be made free and clear of withholding taxes of the Kingdom of Spain unless the withholding is required by law. In such event, the Issuer shall (subject to customary exceptions and, in respect of Tier 2 Subordinated Instruments, only in respect of the payment of interest) pay such additional amounts as shall result in receipt by the Holder of the relevant Instrument of such amounts as would have been received by it had no such withholding been required, all as described in “*Terms and Conditions of the Instruments – Taxation*”.

The Issuer considers that, according to Royal Decree 1065/2007, of 27 July, as amended by Royal Decree 1145/2011, of 29 July, it is not obliged to withhold taxes in Spain in relation to interest paid on the Instruments to any investor (whether tax resident in Spain or not) provided that the information procedures described in section “*Taxation*” below are fulfilled.

According to the information procedures described in such section, it would no longer be necessary to provide the Issuer with information regarding the identity and tax residence of the Holders of the Instruments or the amount of interest payable to them, provided certain conditions are met.

For further information on this matter, please refer to “*Risk Factors — Taxation in Spain*”.

**Governing Law:**

English law, save for Condition 3 (*Status of the Instruments*) and Condition 14 (*Syndicate of Holders of the Instruments and Modification*), which are governed by the laws of Spain.

**Listing and Admission to Trading:**

This Base Prospectus has been approved by the CBI as competent authority under the Prospectus Directive. The CBI only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

Application has been made to the Irish Stock Exchange for the Instruments to be admitted to the Official List and trading on its regulated market, as specified in the relevant Final Terms.

Each Series may be listed on the Official List of the Irish Stock Exchange and traded on the regulated market of the Irish Stock Exchange and/or any other listing authority, stock exchange and/or quotation system (as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms) or may be unlisted. Under Spanish law, unlisted Instruments are

subject to a different tax regime than that applicable to listed Instruments and, if issued under the Programme, such Instruments will be the subject of a supplement to the Base Prospectus.

**Selling Restrictions:**

The United States, the European Economic Area, the United Kingdom, Spain, Japan, Switzerland and Italy. See “*Subscription and Sale*”.

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as defined above.

## DESCRIPTION OF THE ISSUER

### Legal name, place of registration and registration number of the Issuer

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

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

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

### The date of incorporation and the length of life of the Issuer

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

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

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

### Legal form and registration details

The Issuer is a Spanish company with the legal form of a limited liability company (*sociedad anónima*), which operates under the reinstated text of the Companies Law approved by Royal Decree 1/2010, of July 2 (*Texto Refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de Julio*) (the “**Spanish Companies Law**”). It is subject to special legislation applicable to credit entities and private banking in general, and the supervision, control and regulation of the Bank of Spain and the ECB; and, as a listed company, the regulatory oversight of the CNMV.

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

### Share Capital and Major Shareholders

As of 31 December 2017, the share capital of the Issuer amounts to €8,068,076,791 divided into 16,136,153,582 shares of a single series and class, all of which are fully subscribed and paid-up, with a nominal value of €0.50 each. The Issuer’s shares are represented in book-entry form and are currently listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the “**Spanish Stock Exchanges**”), and trade through the automated quotation system (*mercado continuo*) of the Spanish Stock Exchanges under the ticker symbol “SAN”. The Issuer’s shares are also listed in Lisbon, London, Milan, Buenos Aires, Mexico and, through the ADSs, in New York.

As of 31 December 2017, the only shareholders appearing on the Bank’s register of shareholders with a stake of over 3% (the threshold stipulated in Royal Decree 1362/2007 of 19 October, which implemented the Spanish Securities Market Law (as defined below), defining the concept of significant holding) were State Street Bank and Trust Company (13.32%); The Bank of New York Mellon Corporation (8.83%); Chase Nominees Limited (7.41%); EC Nominees Limited (3.43%); Caceis Bank (3.13%); Clearstream Banking S.A. (3.10%) and BNP Paribas (3.03%).

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank’s knowledge none of those shareholders individually holds a stake of over 3% in the share capital or in the voting rights. The website of the CNMV contains a notice of significant holding published by Blackrock, Inc. on 9 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank’s shares of 5.940%, plus a further stake of 0.158% held through financial instruments. However, according to the Bank’s

shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2017.

As of 31 December 2017, no shareholders with an interest greater than 1% were resident in tax havens.

## **Acquisitions, Disposals, Reorganisations and Other Recent Events**

The Group's principal acquisitions, dispositions and reorganisations in 2017 and 2016 were as follows:

### ***Acquisition of the retail banking and private banking business of Deutsche Bank Polska, S.A.***

On 14 December 2017, the Group announced that its subsidiary Bank Zachodni WBK, S.A., together with the Issuer, had reached an agreement with Deutsche Bank, A.G. for the acquisition of the retail banking and private banking business of Deutsche Bank Polska, S.A. ("**Deutsche Bank Polska**"), excluding the portfolio of mortgages in foreign currency, and including the acquisition of shares of DB Securities, S.A. (Poland), for an estimated amount of €305 million that will be paid in cash and a new issuance of shares of Bank Zachodni WBK, S.A..

The transaction, which is subject to obtaining the corresponding regulatory authorisations and its approval by the General Shareholders' Meetings of Bank Zachodni WBK, S.A. and Deutsche Bank Polska, will not have a significant impact on the CET1 fully loaded capital of the Group.

### ***Acquisition of Banco Popular Español, S.A.***

On 7 June 2017 (the acquisition date), as part of its growth strategy in the markets where it is present, Banco Santander communicated the acquisition of 100% of the share capital of Banco Popular as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the SRB and executed by the FROB (the Spanish banking resolution authority) in accordance with the SRM Regulation and Law 11/2015.

As part of the execution of the resolution: (i) all the shares of Banco Popular outstanding at the closing of the market on 7 June 2017 and all the shares resulting from the conversion of the Additional Tier 1 regulatory capital instruments issued by Banco Popular were converted into undisposed reserves and (ii) all the Tier 2 regulatory capital instruments issued by Banco Popular were converted into newly issued shares of Banco Popular, all of which were acquired by Banco Santander for a total consideration of €1.

The transaction has been approved by all the applicable regulatory and antitrust authorities in the territories where Banco Popular operated, except for the pending approval for the acquisition of certain affiliates of Banco Popular located in United States.

The amount contributed by this business to the Group's net profit from the acquisition, and the impact on the Group's net profit resulting from the transaction, if it had been made on 1 January 2017, are not material.

### ***Sale agreement of Banco Popular's real estate business***

In relation to Banco Popular's real estate business, on 8 August 2017, the Group announced that Banco Popular had executed the agreements with Blackstone Group International Partners LLP ("**Blackstone**") for the acquisition by the fund of 51% of, and hence the assignment of control over, Banco Popular's real estate business (the "**Business**"), which comprised the portfolio of repossessed properties, non-performing loans relating to the real estate sector and other assets related to these activities owned by Banco Popular and its affiliates (including some of deferred tax assets) registered on certain specified dates (either 31 March 2017 or 30 April 2017) (the "**Transaction**").

The agreements were entered into following receipt of the European Commission's unconditional authorisation of the acquisition of Banco Popular by Banco Santander for the purposes of competition law.

Closing of the Transaction will involve the creation of a company to which Banco Popular will transfer the Business and 100% of the share capital of Aliseda Servicios de Gestión Inmobiliaria, S.L. ("**Aliseda**") and other subsidiaries considered in the operation. The valuation attributed to the Spanish assets of the Business (real estate, loans and tax assets, not including Aliseda) is approximately €10 billion and is subject to final determination based on the assets remaining within the Business at closing and the integration of Aliseda and the rest of subsidiary companies. From closing, Blackstone will undertake the management of the Business.

The Transaction is subject to the obtaining of the required regulatory authorisations and other usual conditions for this type of transaction no later than 30 March 2018. Assuming that these authorisations and conditions are obtained and fulfilled by then, the closing of the Transaction will be effective in the first quarter of 2018.

## ***Agreement concerning Santander Asset Management***

### ***Acquisition of 50% of Santander Asset Management***

On 16 November 2016, after the agreement with Unicredit Group on 27 July 2016 to integrate Santander Asset Management and Pioneer Investments was abandoned, the Group announced that it had reached an agreement with Warburg Pincus (“**WP**”) and General Atlantic (“**GA**”) under which Santander would acquire 50% of Santander Asset Management.

The Santander Group disbursed a total amount of €545 million and assumed financing of €439 million, with the business combination generating a goodwill of €1,173 million and €320 million of “intangible assets - contracts and relationships with customers” identified in the preliminary purchase price allocation, without other value adjustments to net assets of the business. The market valuation of the previous participation held has not had an impact on the Group's income statement.

Considering that the main activity of the business is asset management, the main part of its activity is recorded off balance sheet. The main net assets acquired, in addition to the aforementioned intangible assets, are net deposits in credit institutions (€181 million) and net tax assets (€176 million). Given their nature, the fair value of these assets and liabilities do not differ from the book value recorded.

The amount that the business contributed to the revenue and profit attributable to the Group, from the acquisition date and considering the acquisition as if it had taken place on 1 January 2017, is not material.

### ***Sale of participation in Allfunds Bank***

As part of the transaction which consisted of the acquisition of the 50% share of Santander Asset Management that Banco Santander did not own, Banco Santander, WP and GA agreed to explore different alternatives for the sale of their stakes in Allfunds Bank, S.A. (“**Allfunds Bank**”), including a possible sale or a public offering. On 7 March 2017, the Group announced that together with its partners at Allfunds Bank, it had reached an agreement for the sale of 100% of Allfunds Bank to funds affiliated with Hellman & Friedman, a leading private equity investor, and GIC (Government of Singapore Investment Corporation).

On 21 November 2017, the Group announced the closing of the sale by the Bank and its partners of 100% of Allfunds Bank's capital, obtaining an amount of €501 million from the sale of its 25% stake, resulting in gains net of tax of €297 million, which were recognised as gains or losses on disposal of non-financial assets and investments, net, within the income statement.

### ***Purchase of the shares to DDFS LLC in Santander Consumer USA Holdings Inc. (SCUSA)***

On 2 July 2015, the Group announced that it had reached an agreement to purchase the 9.65% ownership interest held by DDFS LLC in SCUSA.

On 15 November 2017, after having agreed on some modifications to the original agreement and having obtained the required regulatory authorisations, the Group completed the acquisition of the aforementioned 9.65% of SCUSA shares for a total sum of US\$ 942 million (€800 million), which have caused a decrease of €492 million in the non-controlling interests balance and a reduction of €307 million in other reserves. After this transaction, the participation of the Group in SCUSA increased to approximately 68.12%.

### ***Agreement with Banque PSA Finance***

The Group, through its subsidiary Santander Consumer Finance, and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, entered into an agreement in 2014 for the operation of the vehicle and insurance financing business in twelve European countries. Pursuant to the terms of the agreement, the Group would finance this business, under certain circumstances and conditions from the date on which the transaction was completed.

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

On 1 May 2015, PSA Insurance Europe Limited and PSA Life Insurance Europe Limited (both insurance companies with a registered office in Malta), to which the Group contributed 50% of the share capital (amounting to €23 million), were incorporated. On 3 August 2015, the Group acquired a full ownership interest in PSA Gestão

- Comércio E Aluguer de Veículos, S.A. (currently Santander Consumer Services, S.A. and a company with its registered office in Portugal) and the loan portfolio of the Portuguese branch of Banque PSA Finance for €10 million and €25 million, respectively. On 1 October 2015, PSA Financial Services Spain, E.F.C., S.A. (a company with registered office in Spain) was incorporated, in which the Group contributed €181 million (50% of the share capital). This company owns 100% of the share capital of PSA Finance Suisse, which is domiciled in Switzerland.

During 2016, this business obtained the necessary regulatory authorisations to start activities in the rest of the countries covered by the framework agreement (Italy, the Netherlands, Austria, Belgium, Germany, Brazil and Poland). The Group's disbursement during 2016 amounted to €464 million to reach a 50% stake in the capital of each of the structures created in each geography, with the exception of PSA finance Arrendamento Mercantil SA (currently Santander Finance Arrendamiento Mercantil, S.A.) where 100% of the capital was acquired.

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

#### ***Metrovacesa agreement - Merlin***

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

On 15 September 2016, the general meetings of shareholders of Merlin and Metrovacesa approved the transaction. Subsequently, on 20 October 2016, the deed of spin-off of Metrovacesa was granted in favour of the mentioned companies, and such deed was filed with the Mercantile Registry on 26 October 2016.

As a result of the integration, the Santander Group increased its participation in the share capital of Merlin to 21.95%, to 46.21% of direct participation in the share capital of Testa and to 70.27% in Metrovacesa Promoción.

#### ***Capital Increases***

As of 31 December 2016, the Issuer's share capital had increased by 147,848,122 shares, or 1.02% of its total capital as of 31 December 2015, to 14,582,340,701 shares as a result of the following transaction:

- *Scrip Dividend*: On 1 November 2016, the Bank issued 147,848,122 shares (1.02% of the share capital) giving rise to a capital increase of €73,924,061.

As of 31 December 2017, the Issuer's capital had increased by 1,553,812,881 shares, or 10.66% of its total capital as of 31 December 2016, to 16,136,153,528 shares as a result of the following transactions:

- *Capital increase*: On 3 July 2017, the Bank announced that its executive committee, acting under the authorisation granted to the board of directors by the general shareholders' meeting held on 7 April 2017, agreed to increase Banco Santander's share capital by a nominal amount of €729,116,372.50 by issuing 1,458,232,745 new ordinary shares, of the same class and series as the shares currently outstanding, and with pre-emptive subscription rights for shareholders. On 27 July 2017, the capital increase was closed with the new shares issued at their nominal value of 0.50 € plus an issue premium of €4.35 per share, so that the total value of the issuance of new shares was €4.85 per share and the total effective amount of the capital increase (including nominal value and issue premium) was €7,072,428,813.25. The increase aimed to reinforce and optimise the Bank's equity structure to adequately cover the acquisition of 100% of Banco Popular's share capital.
- *Scrip Dividend*: On 1 November 2017, the Bank issued 95,580,136 shares (0.60% of the share capital) giving rise to a capital increase of €47,790,068.

## Business

### Overview

As of 31 December 2017, the Group had a market capitalisation of €88.4 billion, shareholders' equity of €94.5 billion and total assets of €1,444.3 billion. The Group had €1,162.3 billion in customer funds under management (includes customer deposits, marketable debt securities and other customer funds under management) at that date. As of 31 December 2017, the Group had 68,223 employees and 6,315 branch offices in Continental Europe, 25,971 employees and 808 branches in the United Kingdom, 88,713 employees and 5,891 branches in Latin America, 17,560 employees and 683 branches in the United States and 1,784 employees in Corporate Activities.

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

In Latin America, the Group has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

### Operating Business areas

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

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

The reported segments are:

- **Continental Europe.** This covers all retail banking business and corporate banking in this region. This segment includes the following units: Spain, Portugal, Poland, Santander Consumer Finance (which includes the consumer business in Europe, including that of Spain, Portugal and Poland) and Real Estate Operations in Spain.
- **United Kingdom.** This includes retail and corporate banking conducted by the various units and branches of the Group in the country.
- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and other subsidiaries.
- **United States.** This includes the holding company SHUSA and its subsidiaries Santander Bank, Banco Santander Puerto Rico, SCUSA, Banco Santander International and Santander Investment Securities Inc., as well as Santander's branch in New York.

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

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

### Corporate Centre

In addition to these operating units, which report by geographic area and by businesses, the Group continues to maintain the Corporate Centre. This incorporates the centralised activities relating to equity stakes in financial

companies, financial management of the structural exchange rate position, assumed within the sphere of the Group's ALCO, as well as management of liquidity and of shareholders' equity through issues and securitisations.

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

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

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

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

Continental Europe is the largest business area of the Santander Group by assets. As of 31 December 2017, it accounted for 46% of total customer deposits, 45% of total loans to customers and 32% of profit attributed to the Bank's total operating areas.

The area had 6,315 branches and 68,223 employees (direct and assigned) of which 3,304 were temporary employees, as of 31 December 2017.

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

#### **Spain**

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

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

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

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

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

- Interest income / charges decreased €169 million or 6%, affected by low interest rates, asset repricings and competitive pressure. On the other hand, net fees and commissions increased by €287 million or 16%, mainly due to the higher customer loyalty and number of transactions, as well as the contribution made by corporate banking.
- Administrative expenses and depreciation and amortisation decreased by €37 million or 1% after absorbing costs associated with the launch of Openbank and the impact of the integration of a company that manages point of sale terminals. This 1% decrease is the result of efficiency plans from previous years.
- Impairment loans decreased €72 million or 12% due to better credit quality and an improvement in the economic cycle.

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

Spain, excluding Banco Popular, had a NPL ratio of 4.72% as of 31 December 2017, a 69 basis points decrease as compared to 2016, and a coverage ratio of 45.9%, as compared to 48.3% in 2017. Banco Popular's NPL ratio was 10.75% and the coverage ratio was 48.7%.

#### Portugal

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

As of 31 December 2017, Portugal had 563 branches and 5,895 employees (direct and assigned), of which 30 employees were temporary.

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

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

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

The NPL ratio decreased as of 31 December 2017 to 5.71% as compared to 8.81% as of 31 December 2016 and the coverage ratio stood at 59.1% as compared to 63.7% in December 2016.

#### Poland

As of 31 December 2017, Poland had 576 branches and 11,572 employees (direct and assigned), of which 1,670 employees were temporary.

On 14 December 2017, the Group announced the acquisition of Deutsche Bank Polska, including the acquisition of shares of DB Securities S.A. (Poland). The transaction is expected to be completed in the fourth quarter of 2018 once all regulatory authorisations have been obtained. See "*Acquisition of the retail banking and private banking business of Deutsche Bank Polska, S.A.*".

In 2017, profit attributable to the Bank was €300 million, a €28 million or 10% increase as compared to 2016, (excluding the exchange rate impact it increased by 8%). These results were impacted by the tax increase stemming from the non-deductibility of the expense paid to the BFG (Polish deposit guarantee fund), that represented €8 million.

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

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

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

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

### Santander Consumer Finance

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

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

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

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

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

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

The NPL ratio decreased 18 basis points to reach 2.5%, while the coverage ratio decreased to 101.4% in 2017, as compared to 109.1% in 2016.

### Real Estate Operations in Spain

The segment includes loans to real estate developers, for which a specialised management model is applied, as well as the Group's interest in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB), the remaining Metrovacesa assets, the assets of the previous real estate fund and foreclosed assets. See "*Metrovacesa agreement - Merlin*".

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. Net loans totaled €1,001 million in 2017, which was 50% less than in 2016, and accounted for 0.1% of the Group's loans and less than 1% of those of Santander Spain.

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

### *United Kingdom*

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

As of 31 December 2017, the Group had 808 branches and 25,971 employees (direct and assigned), of which 294 employees were temporary, in the UK.

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

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

### *Latin America*

As of 31 December 2017, the Group had 5,891 branches and 88,713 employees (direct and assigned) in Latin America, of which 2,362 were temporary employees. As of that date, Latin America accounted for 18% of the total customer deposits, 17% of total loans to customers and 48% of profit attributed to the Bank's total operating areas.

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

| <b>Subsidiary</b>                                                                         | <b>Percentage held<br/>as of 31<br/>December 2017</b> |
|-------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Banco Santander (Brasil), S.A.                                                            | 89.67                                                 |
| Banco Santander Chile                                                                     | 67.12                                                 |
| Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander | 75.06                                                 |
| Banco Santander de Negocios Colombia S.A.                                                 | 100.00                                                |
| Banco Santander, S.A. (Uruguay)                                                           | 100.00                                                |
| Banco Santander Perú, S.A.                                                                | 100.00                                                |
| Banco Santander Río, S.A. (Argentina)                                                     | 99.30                                                 |

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

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

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

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

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

As of 31 December 2017, loans and advances to customers decreased by 4%; however, excluding the exchange rate impact they increased by 8%. Customer deposits decreased by 2% as compared to 2016; excluding the exchange rate impact customer deposits increased by 11%. The NPL ratio stood at 4.5% (decreased 31 basis points as compared to 2016) and the coverage ratio was 84.83% (increased 248 basis points as compared to 2016) as of 31 December 2017.

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

#### Brazil

Santander Brazil is the country's third largest private sector bank by assets and the largest foreign bank in the country. The institution operates in the main regions, with 3,465 branches and points of banking attention, 47,135 employees (direct and assigned) as of 31 December 2017, all of which were hired on a full time basis.

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

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

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

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

### Mexico

Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander, is one of the leading financial services companies in Mexico. Santander is the third largest banking group in Mexico by business volume. As of 31 December 2017, it had 1,401 branches throughout the country, 18,557 employees (direct and assigned), of which 2,166 were temporary.

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

Administrative expenses and depreciation and amortisation increased by €108 million or 9% (excluding the exchange rate impact they increased by 12%) mainly due to the cost of the implementation of strategic initiatives, which are part of a three-year investment plan.

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

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

### Chile

Banco Santander Chile is the leading bank in Chile in terms of assets and customers, with a particular focus on retail activity (individuals and SMEs). As of 31 December 2017, Banco Santander Chile had 439 branches and 11,675 employees (direct and assigned), all of which were hired on a full time basis.

Profit attributable to the Bank from Chile in 2017 was €586 million, a €72 million or 14% increase as compared to 2016 (12% excluding the exchange rate impact). Total income rose 4% in 2017 (2% excluding the exchange rate impact). Interest income/charges increased 2% (mainly due to lower financing costs) and net fees and commissions increased 11% (9% excluding the exchange rate impact) due to increased engagement in retail banking and growth in the cash management business, as well as consultancy in the business and Global Corporate Banking segment.

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

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

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

### Argentina

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

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

Profit attributable to the Bank was €359 million in 2017 and 2016; however excluding the exchange rate impact profit increased by 14% mainly due to increases in interest income/ (charges) and in fees and commissions

(increases of 44% and 43%, respectively). Administrative expenses and depreciation and amortisation increased by 49% in local currency due to the effect of inflation.

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

As of 31 December 2017, the NPL ratio increased by 101 basis points to 2.50%, and the coverage ratio decreased from 142.3% in 2016 to 100.1% in 2017.

#### Uruguay

The Group continued to be the country's leading private sector bank, focusing on growing in retail banking and improving efficiency and the quality of service. Overall, the Group had 102 branches and 1,721 employees as of 31 December 2017, of which 22 were temporary.

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

#### Peru

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

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

#### Colombia

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

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

#### *United States*

As of 31 December 2017, the Group had 683 branches and 17,560 employees (direct and assigned), none of them temporary.

The U.S. segment includes the holding company SHUSA and its subsidiaries, Santander Bank, Banco Santander Puerto Rico, SCUSA, BSI and Santander Investment Securities Inc., as well as Santander's branch in New York.

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

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

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

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

Administrative expenses and depreciation and amortisation increased by €77 million or 2% as a result of investments in SCUSA and SHUSA, while costs for Santander Bank were flat.

Finally, impairment on loans decreased by 13% due to changes in the portfolio mix (portfolios with a lower risk of default).

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

For 2017, the NPL ratio increased by 52 basis points to 2.79%. The coverage ratio decreased from 214.4% in 2016 to 170.2% in 2017.

### ***Second (or business) level:***

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

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

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

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

Santander maintains a clear and consistent commercial transformation strategy. The three main pillars of the transformation program are as follows: (i) Improving customer loyalty and satisfaction; (ii) Digital transformation of channels, products and services; and (iii) Further driving customer satisfaction and the customer experience by striving for operational excellence, with new, more efficient and simpler multi-channel processes.

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

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

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

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

Administrative expenses and depreciation and amortisation increased by 2% and impairments increased by 3%.

Global Corporate Banking has 3 major areas: (i) Global Transaction Banking (which includes cash management, trade finance and basic financing and custody), (ii) Financing Solutions and Advisory (which includes the units that originate and distribute corporate loans or structured financing, the teams that originate bonds and securitisation, the corporate finance units (mergers and acquisitions, primary equity markets, investment solutions for corporate clients via derivatives), as well as asset and capital structuring) and (iii) Global Markets (which include the sale and distribution of fixed income and equity derivatives, interest rates and inflation, the trading and hedging of exchange rates, short-term money markets for the Group's corporate and retail clients, management of books associated with distribution, brokerage of equities, and derivatives for investment and hedging solutions).

The main lines of action were:

- Prioritising the efficient allocation of capital to the different businesses, and faster balance sheet rotation.
- Consolidation of the leading position in Latin America and Iberia in debt markets, capital markets, project finance, and financing via export credit agencies (ECAs). Robust growth in M&A operations across the majority of regions, particularly in the Asia-Latin America corridor.

- Development of two products in the Global Transaction Banking (GTB) business: reverse factoring based on buy orders and the global receivables purchase program. Both solutions allow our customers to make optimal use of working capital.
- Greater integration with the retail and commercial banking networks, and strengthening the range of added value products for customers.
- Maintaining industry-leading cost-to-income levels, thanks to a business model focused on customers, which combines global and local capabilities in risk management, capital and liquidity.

#### *Real Estate Operations in Spain*

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

#### **Corporate Centre**

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

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

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

As of 31 December 2017, this area had 1,785 employees.

The Group subsidiaries’ model is complemented by a Corporate Centre that has support and control units which carry out functions for the Group in matters of risk, auditing, technology, human resources, legal affairs, communication and marketing, among others.

The Corporate Centre contributes value to the Group in various ways:

- It makes the Group’s governance more solid, through frameworks of control and global supervision, and taking strategic decisions.
- It makes the Group’s units more efficient, fostering the exchange of best practices in management of costs and economies of scale. This enables the Group to be among the most efficient in the sector.
- By sharing best commercial practices, launching global commercial initiatives and driving digitalisation, the Corporate Centre contributes to the Group’s revenue growth.

It also develops functions related to financial management and capital.

The financial management functions are: (i) Structural management of liquidity risk associated with funding the Group’s recurring activity, stakes of a financial nature and management of net liquidity related to the needs of some business units. This activity is carried out through diversifying the various sources of funding (issues and others), always maintaining an adequate profile (volumes, maturities and costs). The price at which these operations are conducted with other units of the Group is the market rate (EURIBOR or swap) plus the premium which, in concept of liquidity, the Group supports by immobilising funds during the term of the operation; (ii) Interest rate risk is also actively managed in order to soften the impact of interest rate changes on net interest income/(charges), conducted via derivatives of high quality, high liquidity and low consumption of capital; and (iii) Strategic management of the exposure to exchange rates.

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

#### **Organisational Structure**

Banco Santander is the parent company of the Group, which comprised, as of 31 December 2017, 803 companies that consolidate by the global integration method. In addition, there are 179 companies that were accounted for by

the equity method (related Group companies, multi-group companies or stock-exchange listed companies in which the Group owns more than 5%).

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

## Administrative, Management and Supervisory Bodies

### Composition of the Board and Committees

The by-laws of the Issuer (article 41) provide that the maximum number of directors is 22 and the minimum number 14.

The board of directors of the Issuer is currently made up of 14 directors.

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

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

| <i>Board of directors</i>                                     | Executive committee | Audit committee | Appointments committee | Remuneration committee | Risk supervision, regulation and compliance committee | International committee | Innovation and technology committee | Executive | Non-executive | Date of first appointment | Date of re-election                                                                                                                                    |
|---------------------------------------------------------------|---------------------|-----------------|------------------------|------------------------|-------------------------------------------------------|-------------------------|-------------------------------------|-----------|---------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Executive chairman<br>Ms. Ana Botín-Sanz de Sautuola y O'Shea | C                   |                 |                        |                        |                                                       | C                       | C                                   |           |               | 04.02.1989                | 10.06.1991<br>09.05.1994<br>12.05.1997<br>06.03.1999<br>04.03.2000<br>21.06.2003<br>17.06.2006<br>17.06.2011<br>28.03.2014<br>07.04.2017               |
| Chief executive officer<br>Mr. José Antonio Álvarez           |                     |                 |                        |                        |                                                       |                         |                                     |           |               | 25.11.2014                | 07.04.2017                                                                                                                                             |
| Vice-chairman<br>Mr. Bruce Carnegie-Brown                     |                     |                 | C                      | C                      | C                                                     |                         |                                     |           | I             | 25.11.2014                | 18.03.2016                                                                                                                                             |
| Vice-chairman<br>Mr. Rodrigo Echenique Gordillo               |                     |                 |                        |                        |                                                       |                         |                                     |           |               | 07.10.1988                | 30.06.1989<br>08.06.1992<br>08.05.1995<br>23.06.1998<br>06.03.1999<br>04.03.2000<br>21.06.2003<br>17.06.2006<br>17.06.2011<br>28.03.2014<br>07.04.2017 |
| Vice-chairman<br>Mr. Guillermo de la Dehesa Romero            |                     |                 |                        |                        |                                                       |                         |                                     |           | E             | 24.06.2002                | 18.06.2005<br>19.06.2009<br>22.03.2013<br>27.03.2015                                                                                                   |

**Members:**

|                                                           |  |   |  |  |  |  |  |  |   |            |                                                      |
|-----------------------------------------------------------|--|---|--|--|--|--|--|--|---|------------|------------------------------------------------------|
| Ms. Homaira Akbari                                        |  |   |  |  |  |  |  |  | I | 27.09.2016 | 07.04.2017                                           |
| Mr. Ignacio Benjumea Cabeza de Vaca                       |  |   |  |  |  |  |  |  | E | 30.06.2015 | 18.03.2016                                           |
| Mr. Javier Botín-Sanz de Sautuola y O'Shea <sup>(1)</sup> |  |   |  |  |  |  |  |  | E | 25.07.2004 | 18.06.2005<br>11.06.2010<br>22.03.2013<br>18.03.2016 |
| Ms. Sol Daurella Comadrán <sup>(2)</sup>                  |  |   |  |  |  |  |  |  | I | 25.11.2014 | 18.03.2016                                           |
| Mr. Carlos Fernández González                             |  |   |  |  |  |  |  |  | I | 25.11.2014 | 27.03.2015                                           |
| Ms. Esther Giménez-Salinas i Colomer                      |  |   |  |  |  |  |  |  | I | 30.03.2012 | 28.03.2014<br>07.04.2017                             |
| Mr. Ramiro Mato García-Ansorena                           |  |   |  |  |  |  |  |  | I | 28.11.2017 | -                                                    |
| Ms. Belén Romana García                                   |  | C |  |  |  |  |  |  | I | 22.12.2015 | 07.04.2017                                           |
| Mr. Juan Miguel Villar Mir <sup>(2)</sup>                 |  |   |  |  |  |  |  |  | I | 07.05.2013 | 27.03.2015                                           |

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

|                                         |  |  |  |  |  |  |  |  |  |            |   |
|-----------------------------------------|--|--|--|--|--|--|--|--|--|------------|---|
| Mr. Jaime Pérez Renovaes <sup>(3)</sup> |  |  |  |  |  |  |  |  |  | 01.09.2015 | - |
|-----------------------------------------|--|--|--|--|--|--|--|--|--|------------|---|

**C: Chairman of the committee P: Proprietary I: Independent E: External, neither proprietary nor independent**

Notes:

- (1) Non-executive proprietary director. See detailed information in sections C.1.3 and H of the 2016 annual corporate governance report.
- (2) The Santander Group holds risk positions with companies in which the independent director is or has been significant shareholder or director, through various instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee lines.  
In the assessment of this director's suitability to perform the duties of independent director, the appointments committee first, and the board of directors subsequently, took into consideration the existence of the financing by the Santander Group for the benefit of companies where he/she is or was significant shareholder or director and with support concluded that such financing did not constitute a significant business relationship (as defined in article 529.duodécies.4.e) of the Spanish Companies Law) for the purpose of this director's classification as independent. Specifically, among the reasons considered by the appointments committee and the board there was that no situation of financial dependence had been created in the respective companies owing to the replaceability of such financing with other sources of bank or non-bank financing, that the business relationship of said companies with Santander Group was in line with the market share of the Santander Group in the relevant market (which implies that such business relationships are those which would be ordinarily expected for an entity with one of the leaders of the markets in which such entity operates) and that certain established materiality levels were not triggered (e.g. the 2% and 5% of income relative to gross revenues figures set as independence materiality thresholds by the applicable NYSE and Nasdaq regulations; or the indebtedness in excess of 25% of assets figure that is defined as "significant borrowing" under Canada's Bank Act in order to preclude independence). Spanish regulations do not provide for any specific materiality tests. In addition, the independence status of the director has been confirmed by the relevant supervisory authorities. At its meeting of 21 February 2017, the board of directors adopted a proposal put forward by the appointments committee at its meeting of 21 February 2017 on the classification of the Bank's directors, whereby the independent directors may continue to be treated as such as they satisfy the requirements of Article 529 duodécies.4 of the Spanish Companies Law.
- (3) Not director.

**Principal Activities Outside the Issuer**

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

| Name or corporate name of director      | Name of company                            | Position                    |
|-----------------------------------------|--------------------------------------------|-----------------------------|
| Ms. Ana Botín-Sanz de Sautuola y O'Shea | The Coca-Cola Company                      | Non-executive director      |
| Mr. Bruce Carnegie-Brown                | Moneysupermarket.com                       | Non-executive chairman      |
| Mr. Rodrigo Echenique Gordillo          | Industria de Diseño Textil, S.A. (Inditex) | Non-executive director      |
| Mr. Guillermo de la Dehesa Romero       | Amadeus IT Holding, S.A.                   | Non-executive vice chairman |
|                                         | Veolia Environment                         | Non-executive director      |
| Ms. Homaira Akbari                      | Gemalto N.V.                               | Non-executive director      |
|                                         | Landstar System, Inc.                      | Non-executive director      |
| Ms. Sol Daurella Comadrán               | Coca-Cola European Partners, Plc           | Non-executive chairman      |

| Name or corporate name of director | Name of company             | Position               |
|------------------------------------|-----------------------------|------------------------|
| Mr. Carlos Fernández González      | Inmobiliaria Colonial, S.A. | Non-executive director |
|                                    | AmRest Holdings SE          | Non-executive chairman |
| Ms. Belén Romana García            | Aviva plc                   | Non-executive director |

### **Conflicts of interest**

With regard to situations of conflict of interest, as stipulated in article 30 of the regulations of the board of directors (the “**Regulations of the Board**”), the directors must notify the board of directors of any direct or indirect conflict with the interests of the Bank in which they may be involved. If the conflict arises from a transaction, the director shall not be allowed to conduct it unless the board of directors, following a report from the appointments committee, approves such transaction.

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

In 2017, there were 86 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees.

The breakdown of the 86 cases is as follows: on 27 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of board committees or other committees at Group or related companies; on 25 occasions the matter under consideration related to remuneration or granting loans or credits; on 22 occasions the matter concerned the discussion of financing or investment proposals or other risk transactions in favour of companies related to any director; and on 12 occasions the abstention concerned the annual verification of the status of directors carried out by the appointments committee, pursuant to article 6.3 of the Regulations of the Board.

Other than the above, there are no actual or potential conflicts of interest between the duties to Banco Santander of any of its directors and their respective private interests and/or other duties.

Banco Santander complies with the Spanish corporate governance regime. The Issuer has included in its 2017 Annual Corporate Governance report, which can be found on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)), a detailed explanation of its compliance with the various recommendations on corporate governance.

### **Shareholding stakes held by the Board of Directors**

As of 31 December 2017, 0.64% of the Issuer’s total voting rights were held by members of the board of directors.

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

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

### **Legal and arbitration proceedings**

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

In this context, it must be considered that the outcome of court proceedings is uncertain, particularly in the case of claims for indeterminate amounts, those based on legal issues for which there are no precedents, those that affect a large number of parties or those at a very preliminary stage.

With the information available to it, the Group considers that at 31 December 2017, it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group’s business, financial position or results of operations.

## Alternative Performance Measures

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

The Issuer considers that these indicators it uses in managing its business provide useful information for investors, securities analysts and other interested parties in order to better understand the Group's profitability and efficiency, the quality of its loan portfolio and the tangible net asset value per share and the loan-to-deposit ratio, analysing the performance thereof over time and comparing it with the performance of its competitors.

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

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

The purpose of profitability and cost-to-income indicators is to measure the ratio of income to capital, tangible equity, assets and risk-weighted assets; while the cost-to-income ratio makes it possible to measure the general administrative expenses (personnel and others) and amortisation expenses needed to generate income.

The purpose of credit risk indicators is to measure the quality of the credit portfolio and the percentage of the NPL portfolio covered by loan loss provisions.

The purpose of the capitalisation indicator is to provide information on the tangible net asset value per share.

The Group also relies on other indicators. The loan-to-deposit (LTD) ratio enables the Bank to identify the relationship between loans and advances to customers (net of funds for insolvencies) and customer deposits and therefore to assess the extent to which the loans and advances granted to customers by the Group are financed with customer deposits. The Group also uses gross customer lending indicators excluding reverse repurchase agreements, as well as customer deposits excluding repurchase agreements. In order to analyse trends in loans and customer deposits in the traditional commercial banking business, repurchase agreements and reverse repurchase agreements are deducted, as they are primarily high-volatility products within the cash management business.

### Adjusted attributable profit to the Group. Twelve months ended on December 31:

EUR million

|                                                                   | 2017  | 2016  | % change<br>between<br>periods |
|-------------------------------------------------------------------|-------|-------|--------------------------------|
| Unadjusted attributable profit to the Santander Group.....        | 6,619 | 6,204 | +7%                            |
| (-) Net capital gains and provisions.....                         | (897) | (417) | +115%                          |
| Adjusted attributable profit to the Santander Group .....         | 7,516 | 6,621 | +14%                           |
| (-) Adjusted attributable profit Banco Popular .....              | 263   | —     | —                              |
| Adjusted attributable profit to the Group w/o Banco Popular ..... | 7,523 | 6,621 | +10%                           |

**Profitability and efficiency**

|                  |                                                                                                                                                                                                                                                          |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RoE              | Return on equity: Group's attributable profit / average stockholders' equity (excl. minority interests)<br>Average stockholders' equity defined as capital and reserves + accumulated other comprehensive income + Group attributable profit + Dividends |
| RoTE             | Return on tangible equity: Group's attributable profit / average stockholders' equity (excl. minority interests) – intangible assets (incl. goodwill)                                                                                                    |
| Underlying RoTE  | Group's underlying attributable profit / average stockholders' equity (excl. minority interests) – intangible assets (incl. goodwill)                                                                                                                    |
| RoA              | Return on assets: consolidated profit / average total assets                                                                                                                                                                                             |
| RoRWA            | Return on risk-weighted assets: consolidated profit / average risk-weighted assets                                                                                                                                                                       |
| Underlying RoRWA | Underlying consolidated profit / average risk-weighted assets                                                                                                                                                                                            |
| Efficiency       | Operating expenses / gross income<br>Operating expenses defined as general administrative expenses + depreciation and amortisation                                                                                                                       |

**Credit risk**

|                |                                                                                                                                                                                                                                                         |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| NPL ratio      | Non-performing loans and advances to customers and guarantees contingent liabilities / Total Risk<br>Total Risk defined as total loans and advances and guarantees to customers (performing and non-performing) + non-performing contingent liabilities |
| Coverage ratio | Provisions to cover impairment losses on loans and advances to customers, guarantees and contingent liabilities / Non-performing loans and advances to customers, guarantees and non-performing contingent liabilities                                  |
| Cost of Credit | Allowances for loan loss provisions over the last 12 months / Average loans and advances to customers over the last 12 months                                                                                                                           |

**Market Capitalisation**

|                |                                                                                                                                                                                                                                                                                                            |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| TNAV per share | Tangible book value / number of shares excluding treasury stock<br>Tangible book value defined as Shareholders' equity + Accumulated other comprehensive income – Goodwill attributable – Other intangible assets calculated as the total own funds + valuation adjustments (excluding minority interests) |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Other indicators**

|                                          |                                                                          |
|------------------------------------------|--------------------------------------------------------------------------|
| LtD                                      | Loan-to-deposit: Net loans and advances to customers / Customer deposits |
| Loans and advances (excl. reverse repos) | Gross loans and advances to customers excluding reverse repos            |
| Deposits (excl. repos)                   | Customer deposits excluding repos                                        |

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

|                                                                                  | 2017 with<br>Popular | 2016          |
|----------------------------------------------------------------------------------|----------------------|---------------|
| <b>Profitability and efficiency</b>                                              |                      |               |
| <b>RoE</b> .....                                                                 | <b>7.14%</b>         | <b>6.99%</b>  |
| Attributable profit to the Group.....                                            | 6,619                | 6,204         |
| Average stockholders' equity (excluding minority interests).....                 | 92,638               | 88,744        |
| <b>RoTE</b> .....                                                                | <b>10.41%</b>        | <b>10.38%</b> |
| Attributable profit to the Group.....                                            | 6,619                | 6,204         |
| Average stockholders' equity (excl. minority interests) – intangible assets..... | 63,594               | 59,771        |
| <b>Underlying RoTE</b> .....                                                     | <b>11.82%</b>        | <b>11.08%</b> |
| Underlying attributable profit to the Group.....                                 | 7,516                | 6,621         |
| Average stockholders' equity (excl. minority interests) – intangible assets..... | 63,594               | 59,771        |
| <b>RoA</b> .....                                                                 | <b>0.58%</b>         | <b>0.56%</b>  |
| Consolidated profit.....                                                         | 8,205                | 7,486         |
| Average total assets.....                                                        | 1,407,681            | 1,337,661     |
| <b>RoRWA</b> .....                                                               | <b>1.35%</b>         | <b>1.29%</b>  |
| Consolidated profit.....                                                         | 8,205                | 7,486         |
| Average risk weighted assets.....                                                | 606,308              | 580,777       |
| <b>Underlying RoRWA</b> .....                                                    | <b>1.48%</b>         | <b>1.36%</b>  |
| Underlying consolidated profit.....                                              | 8,963                | 7,893         |
| Average risk weighted assets.....                                                | 606,308              | 580,777       |
| <b>Efficiency ratio (with amortisations)</b> .....                               | <b>47.4%</b>         | <b>48.1%</b>  |
| Operating expenses.....                                                          | 22,918               | 21,088        |
| Gross income.....                                                                | 48,392               | 43,853        |

|                                                                                                                                     | 2017           |                 |              |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|--------------|
|                                                                                                                                     | w/o<br>Popular | with<br>Popular | 2016         |
| <b>Credit risk</b>                                                                                                                  |                |                 |              |
| <b>NPL ratio</b> .....                                                                                                              | <b>3.38%</b>   | <b>4.08%</b>    | <b>3.93%</b> |
| Non-performing loans and advances to customers and guarantees and non-performing contingent liabilities (without country risk)..... | 28,104         | 37,596          | 33,643       |
| Total risk.....                                                                                                                     | 832,655        | 920,968         | 855,510      |
| <b>Coverage ratio</b> .....                                                                                                         | <b>70.8%</b>   | <b>65.2%</b>    | <b>73.8%</b> |
| Provisions to cover impairment losses on loans and advances to customers, guarantees and contingent liabilities.....                | 19,906         | 24,529          | 24,835       |
| Non-performing loans and advances to customers, guarantees and non-performing contingent liabilities.....                           | 28,104         | 37,596          | 33,643       |
| <b>Cost of credit</b> .....                                                                                                         | <b>1.12%</b>   | <b>1.07%</b>    | <b>1.18%</b> |
| Allowances for loan loss provisions over the last 12 months.....                                                                    | 8,997          | 9,111           | 9,518        |
| Average loans and advances to customers over the last 12 months.....                                                                | 803,488        | 853,479         | 806,595      |

|                                                     | 2017 with<br>Popular | 2016        |
|-----------------------------------------------------|----------------------|-------------|
| <b>Market Capitalisation</b>                        |                      |             |
| <b>TNAV (tangible book value) per share</b> .....   | <b>4.15</b>          | <b>4.15</b> |
| Tangible book value.....                            | 66,985               | 61,517      |
| Number of shares w/o treasury stock (million)*..... | 16,132               | 14,825      |

|                                          | 2017           |                 |             |
|------------------------------------------|----------------|-----------------|-------------|
|                                          | w/o<br>Popular | with<br>Popular | 2016        |
| <b>Others</b>                            |                |                 |             |
| <b>Loan-to-deposit ratio</b> .....       | <b>109%</b>    | <b>109%</b>     | <b>114%</b> |
| Net loans and advances to customers..... | 773,398        | 848,914         | 790,470     |
| Customer deposits.....                   | 712,770        | 777,730         | 691,111     |

(\*) – In 2016, data adjustments to capital increase of July 2017

Notes:

- (1) Averages included in the RoE, RoTE, RoA and RoRWA denominators are calculated using 13 months (December to December).
- (2) For periods less than one year, and if there are results which distort period-on-period business comparisons, the profit used to calculate RoE and RoTE is the annualised underlying attributable profit to which said distorting results are added without annualising.
- (3) For periods less than one year, and if there are results which distort period-on-period business comparisons, the profit used to calculate RoA and RoRWA is the annualised underlying consolidated profit, to which said distorting results are added without annualising.
- (4) The risk weighted assets included in the denominator of the RoRWA metric are calculated in line with the criteria laid out in the CRR.

|                    | 2017 |              |                    | 2016 |              |                    |
|--------------------|------|--------------|--------------------|------|--------------|--------------------|
|                    | %    | Gross margin | Operating expenses | %    | Gross margin | Operating expenses |
| <b>Efficiency</b>  |      |              |                    |      |              |                    |
| Continental Europe | 53.2 | 14,463       | 7,689              | 53.0 | 12,806       | 6,781              |
| United Kingdom     | 50.1 | 5,716        | 2,861              | 51.0 | 5,816        | 2,967              |
| Latin America      | 38.7 | 22,473       | 8,694              | 41.0 | 18,764       | 7,692              |
| United States      | 46.0 | 6,959        | 3,198              | 42.4 | 7,533        | 3,197              |

|                    | 2017  |                                  |                                    | 2016  |                                  |                                    |
|--------------------|-------|----------------------------------|------------------------------------|-------|----------------------------------|------------------------------------|
|                    | %     | Profit attributable to the Group | Average equity - intangible assets | %     | Profit attributable to the Group | Average equity - intangible assets |
| <b>ROTE</b>        |       |                                  |                                    |       |                                  |                                    |
| Continental Europe | 9.83  | 2,953                            | 30,054                             | 8.07  | 2,599                            | 32,210                             |
| United Kingdom     | 10.26 | 1,498                            | 14,604                             | 10.53 | 1,680                            | 15,960                             |
| Latin America      | 18.04 | 4,284                            | 23,743                             | 15.56 | 3,386                            | 21,764                             |
| United States      | 3.12  | 408                              | 13,050                             | 3.10  | 395                              | 12,738                             |

|                            | 2017        |                                                                                    |                                                                                                           | 2016        |                                                                                    |                                                                                                           |
|----------------------------|-------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
|                            | %           | NPLs and advances to customers and contingent liabilities (excluding country risk) | Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk) | %           | NPLs and advances to customers and contingent liabilities (excluding country risk) | Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk) |
| <b>NPL ratio</b>           |             |                                                                                    |                                                                                                           |             |                                                                                    |                                                                                                           |
| <b>Continental Europe</b>  | <b>5.79</b> | <b>24,676</b>                                                                      | <b>426,081</b>                                                                                            | <b>5.92</b> | <b>19,638</b>                                                                      | <b>331,706</b>                                                                                            |
| Spain                      | 4.72        | 8,120                                                                              | 172,176                                                                                                   | 5.41        | 9,361                                                                              | 172,974                                                                                                   |
| Santander Consumer Finance | 2.50        | 2,319                                                                              | 92,589                                                                                                    | 2.68        | 2,357                                                                              | 88,061                                                                                                    |
| Poland                     | 4.57        | 1,114                                                                              | 24,391                                                                                                    | 5.42        | 1,187                                                                              | 21,902                                                                                                    |
| Portugal                   | 5.71        | 1,875                                                                              | 32,816                                                                                                    | 8.81        | 2,691                                                                              | 30,540                                                                                                    |
| Popular                    | 10.75       | 9,492                                                                              | 88,313                                                                                                    | -           | -                                                                                  | -                                                                                                         |
| <b>United Kingdom</b>      | <b>1.33</b> | <b>3,295</b>                                                                       | <b>247,625</b>                                                                                            | <b>1.41</b> | <b>3,585</b>                                                                       | <b>255,049</b>                                                                                            |
| <b>Latin America</b>       | <b>4.50</b> | <b>7,462</b>                                                                       | <b>165,683</b>                                                                                            | <b>4.81</b> | <b>8,333</b>                                                                       | <b>173,150</b>                                                                                            |
| Brazil                     | 5.29        | 4,391                                                                              | 83,076                                                                                                    | 5.90        | 5,286                                                                              | 89,572                                                                                                    |
| Mexico                     | 2.69        | 779                                                                                | 28,939                                                                                                    | 2.76        | 819                                                                                | 29,682                                                                                                    |
| Chile                      | 4.96        | 2,004                                                                              | 40,406                                                                                                    | 5.05        | 2,064                                                                              | 40,864                                                                                                    |
| <b>United States</b>       | <b>2.79</b> | <b>2,156</b>                                                                       | <b>77,190</b>                                                                                             | <b>2.28</b> | <b>2,088</b>                                                                       | <b>91,709</b>                                                                                             |

|                            | 2017         |                                                                                                                         |                                                                                    | 2016         |                                                                                                                         |                                                                                    |
|----------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
|                            | %            | Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk) | NPLs and advances to customers and contingent liabilities (excluding country risk) | %            | Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk) | NPLs and advances to customers and contingent liabilities (excluding country risk) |
| <b>Coverage ratio</b>      |              |                                                                                                                         |                                                                                    |              |                                                                                                                         |                                                                                    |
| <b>Continental Europe</b>  | <b>54.4</b>  | <b>13,434</b>                                                                                                           | <b>24,676</b>                                                                      | <b>60.0</b>  | <b>11,781</b>                                                                                                           | <b>19,638</b>                                                                      |
| Spain                      | 45.9         | 3,729                                                                                                                   | 8,120                                                                              | 48.3         | 4,517                                                                                                                   | 9,361                                                                              |
| Santander Consumer Finance | 101.4        | 2,352                                                                                                                   | 2,319                                                                              | 109.1        | 2,573                                                                                                                   | 2,357                                                                              |
| Poland                     | 68.2         | 760                                                                                                                     | 1,114                                                                              | 61.0         | 724                                                                                                                     | 1,187                                                                              |
| Portugal                   | 59.1         | 1,108                                                                                                                   | 1,875                                                                              | 63.7         | 1,714                                                                                                                   | 2,691                                                                              |
| Popular                    | 48.7         | 4,623                                                                                                                   | 9,492                                                                              | -            | -                                                                                                                       | -                                                                                  |
| <b>United Kingdom</b>      | <b>32.0</b>  | <b>1,055</b>                                                                                                            | <b>3,295</b>                                                                       | <b>32.9</b>  | <b>1,178</b>                                                                                                            | <b>3,585</b>                                                                       |
| <b>Latin America</b>       | <b>84.8</b>  | <b>6,330</b>                                                                                                            | <b>7,462</b>                                                                       | <b>87.3</b>  | <b>7,276</b>                                                                                                            | <b>8,333</b>                                                                       |
| Brazil                     | 92.6         | 4,066                                                                                                                   | 4,391                                                                              | 93.1         | 4,921                                                                                                                   | 5,286                                                                              |
| Mexico                     | 97.5         | 760                                                                                                                     | 779                                                                                | 103.8        | 850                                                                                                                     | 819                                                                                |
| Chile                      | 58.2         | 1,167                                                                                                                   | 2,004                                                                              | 59.1         | 1,220                                                                                                                   | 2,064                                                                              |
| <b>United States</b>       | <b>170.2</b> | <b>3,668</b>                                                                                                            | <b>2,156</b>                                                                       | <b>214.4</b> | <b>4,477</b>                                                                                                            | <b>2,088</b>                                                                       |

## DOCUMENTS INCORPORATED BY REFERENCE

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

1. The audited annual consolidated financial statements of the Issuer prepared under IFRS-EU for the years ended 31 December 2017 and 31 December 2016

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

[https://www.santander.com/csgs/Satellite/CFWCSancomQP01/en\\_GB/pdf/Memoria\\_Consolidada\\_Grupo\\_Santander\\_31122017\\_ENG.pdf](https://www.santander.com/csgs/Satellite/CFWCSancomQP01/en_GB/pdf/Memoria_Consolidada_Grupo_Santander_31122017_ENG.pdf)

2. The Terms and Conditions of the Instruments set out on pages 140 to 174 (inclusive) of the base prospectus of Banco Santander, S.A. dated 6 March 2017 and the Supplement to such Base Prospectus dated 7 July 2017 to the extent such Supplement amends such Terms and Conditions, each prepared by Banco Santander, S.A. in connection with the Programme.

[https://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=attachment%3Bfilename%3D631%5C931%5C2017\\_EMTN\\_Programme\\_Base\\_Prospectus.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278735816478&ssbinary=true](https://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=attachment%3Bfilename%3D631%5C931%5C2017_EMTN_Programme_Base_Prospectus.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278735816478&ssbinary=true)

[https://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=attachment%3Bfilename%3D235%5C585%5CSantander\\_EMTN\\_Supplement.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278743881443&ssbinary=true](https://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=attachment%3Bfilename%3D235%5C585%5CSantander_EMTN_Supplement.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278743881443&ssbinary=true)

In relation to the audited annual consolidated financial statements of the Issuer prepared under IFRS-EU for the years ended 31 December 2017 and 31 December 2016, any information not specified in the cross-reference tables set out below but which is included in the documents from which the information incorporated by reference has been derived, is for information purposes only and is not incorporated by reference because it is not relevant for the investor.

### ***Issuer Annual Financial Information***

The tables below set out the relevant page references in the English language translations of the audit and financial statements reports of the Issuer for the years ended 31 December 2017 and 31 December 2016 (the “**2017 Financial Statements**” and the “**2016 Financial Statements**”, respectively) where the following information incorporated by reference in this Base Prospectus can be found:

| <b>Information incorporated by reference in this Base Prospectus</b>                                                                                                          | <b>2017<br/>Financial Statements<br/>page reference<sup>(1)</sup></b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| 1. Auditor’s report on consolidated financial statements for the year ended 31 December 2017.....                                                                             | 1-13 <sup>(2)</sup>                                                   |
| 2. Audited consolidated balance sheets at 31 December 2017 and the comparative consolidated financial information of the Issuer at 31 December 2016 and 31 December 2015..... | BS 1-2 <sup>(3)</sup>                                                 |
| 3. Audited consolidated income statements for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years              | IC 1 <sup>(4)</sup>                                                   |

| <b>Information incorporated by reference in this Base Prospectus</b>                                                                                                                                                                        | <b>2017<br/>Financial Statements<br/>page reference<sup>(1)</sup></b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| ended 31 December 2016 and 31 December 2015.....                                                                                                                                                                                            |                                                                       |
| 4. Audited consolidated statements of recognised income and expense for the year ended 31 December 2017 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2016 and 31 December 2015..... | IE 1 <sup>(5)</sup>                                                   |
| 5. Audited consolidated statements of changes in total equity for the year ended 31 December 2017 and the comparative for the years ended 31 December 2016 and 31 December 2015.....                                                        | CTE 1-3 <sup>(6)</sup>                                                |
| 6. Audited consolidated cash flow statements for the year ended 31 December 2017 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2016 and 31 December 2015.....                          | CF 1 <sup>(7)</sup>                                                   |
| 7. Notes to the consolidated financial statements for the year ended 31 December 2017 .....                                                                                                                                                 | N 1-286 <sup>(8)</sup>                                                |

**Notes:**

- (1) Not all the pages of the 2017 Financial Statements are paginated continuously. See Notes below for detailed indications on where the relevant sections incorporated by reference in this Base Prospectus are located.
- (2) Page references are to the page numbers of the auditor's report which precedes the 2017 Financial Statements, located immediately after the front cover page (the front cover page is not paginated).
- (3) "BS" corresponds to the section entitled "Consolidated Balance Sheets as of December 31, 2017, 2016 and 2015" of the 2017 Financial Statements located immediately after the auditor's report (see note (2) above) and the cover page entitled "Consolidated Financial Statements and Consolidated Directors' Report for the year ended December 31, 2017" and the page references are to the number of pages of such section as pages are not paginated.
- (4) "IC" corresponds to the section entitled "Consolidated Income Statements for the years ended December 31, 2017, 2016 and 2015" of the 2017 Financial Statements located immediately after the section entitled "Consolidated Balance Sheets as of December 31, 2017, 2016 and 2015" (see note (3) above) and page references are to the number of pages of such section as pages are not paginated.
- (5) "IE" corresponds to the section entitled "Consolidated statements of recognised income and expense for the years ended December 31, 2017, 2016 and 2015" of the 2017 Financial Statements located immediately after the section entitled "Consolidated Income Statements for the years ended December 31, 2017, 2016 and 2015" (see note (4) above) and page references are to the number of pages of such section as pages are not paginated.
- (6) "CTE" corresponds to the section entitled "Consolidated statements of changes in total equity for the years ended December 31, 2017, 2016 and 2015" of the 2017 Financial Statements located immediately after the section entitled "Consolidated statements of recognised income and expense for the years ended December 31, 2017, 2016 and 2015" (see note (5) above) and page references are to the number of pages of such section as pages are not paginated.
- (7) "CF" corresponds to the section entitled "Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015" of the 2017 Financial Statements located immediately after the section entitled "Consolidated statements of changes in total equity for the years ended December 31, 2017, 2016 and 2015" (see note (6) above) and page references are to the number of pages of such section as pages are not paginated.
- (8) "N" corresponds to the section entitled "Notes to the consolidated financial statements for the year ended December 31, 2017" of the 2017 Financial Statements located immediately after the section entitled "Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015" (see note (7) above) and page references are to the page numbers appearing in the bottom right corner of each page in such section.

| <b>Information incorporated by reference in this Base Prospectus</b>                                                                                                          | <b>2016<br/>Financial Statements<br/>page reference<sup>(1)</sup></b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| 1. Auditor's report on consolidated financial statements for the year ended 31 December 2016.....                                                                             | 1-2 <sup>(2)</sup>                                                    |
| 2. Audited consolidated balance sheets at 31 December 2016 and the comparative consolidated financial information of the Issuer at 31 December 2015 and 31 December 2014..... | BS 1-2 <sup>(3)</sup>                                                 |

| <b>Information incorporated by reference in this Base Prospectus</b>                                                                                                                                                                        | <b>2016<br/>Financial Statements<br/>page reference<sup>(1)</sup></b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| 3. Audited consolidated income statements for the year ended 31 December 2016 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2015 and 31 December 2014.....                           | IC 1 <sup>(4)</sup>                                                   |
| 4. Audited consolidated statements of recognised income and expense for the year ended 31 December 2016 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2015 and 31 December 2014..... | IE 1 <sup>(5)</sup>                                                   |
| 5. Audited consolidated statements of changes in total equity for the year ended 31 December 2016 and the comparative for the years ended 31 December 2015 and 31 December 2014.....                                                        | CTE 1-3 <sup>(6)</sup>                                                |
| 6. Audited consolidated cash flow statements for the year ended 31 December 2016 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2015 and 31 December 2014.....                          | CF 1 <sup>(7)</sup>                                                   |
| 7. Notes to the consolidated financial statements for the year ended 31 December 2016 .....                                                                                                                                                 | N 1-294 <sup>(8)</sup>                                                |

**Notes:**

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

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*“The following, except for paragraphs in italics, is the text of the terms and conditions (the “**Terms and Conditions**”) that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Instruments in definitive form (if any) issued in exchange for the Global Instruments(s) and Global Registered Instrument(s) representing each Series. Either (i) the full text of these Terms and Conditions together with the relevant provisions of Part A of the Final Terms or (ii) these Terms and Conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Instruments or on the Individual Certificates relating to such Registered Instruments. All capitalised terms that are not defined in these Terms and Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Instruments or Individual Certificates, as the case may be.*

The Instruments of each Tranche will be issued following the execution of a public deed (*escritura pública*) (the “**Public Deed of Issuance**”) to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Cantabria on, prior to or after the Issue Date, and which shall contain, among other information, the Terms and Conditions. The Instruments will be issued in accordance with an amended and restated issue and paying agency agreement (the “**Issue and Paying Agency Agreement**”, which expression shall include any amendments or supplements thereto) dated 8 March 2018 and made between Banco Santander, S.A. (the “**Issuer**”), The Bank of New York Mellon, London Branch in its capacity as issue and paying agent (the “**Issue and Paying Agent**” which expressions shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such and together any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement, the “**Paying Agent**”) and The Bank of New York Mellon SA/NV, Luxembourg Branch in its capacity as registrar (the “**Registrar**”, which expression shall include any successor to The Bank of New York Mellon SA/NV, Luxembourg Branch in its capacity as such). For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Terms and Conditions of any Series of Instruments (as defined below), the Issuer may appoint a Calculation Agent (as defined under Condition 4E.05) for the purposes of such Instruments, in accordance with the provisions of the Issue and Paying Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms. The Issuer has executed and delivered a deed of covenant dated 8 March 2018 (the “**Deed of Covenant**”). Copies of the Issue and Paying Agency Agreement and the Deed of Covenant are, or will be, available for inspection free of charge during normal business hours at the specified office of each of the Paying Agents and the Registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a “**Series**”), and each Series may comprise one or more tranches (“**Tranches**” and each, a “**Tranche**”) of Instruments. Each Tranche will be the subject of a Final Terms (each, a “**Final Terms**”), a copy of which will be available for inspection free of charge during normal business hours at the specified office of the Issue and Paying Agent and the Registrar, as the case may be, and, in the case of a Tranche of Instruments listed on the regulated market of the Irish Stock Exchange and if the rules of such market so require, shall be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)). In the case of a Tranche of Instruments in relation to which application has not been made for admission for listing on any listing authority, stock exchange and/or quotation system, copies of the Final Terms will only be available for inspection by a Holder of or, as the case may be, an Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.

References in these Terms and Conditions to “**Instruments**” are to Instruments of the relevant Series and any references to “**Coupons**” (as defined in Condition 1.02) and “**Receipts**” (as defined in Condition 1.02) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the “**Final Terms**” are to the Final Terms or Final Terms(s) prepared in relation to the Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these “**Terms and Conditions**” are to these terms and conditions as amended, modified or varied by the Final Terms.

## 1 Form, Denomination and Title

- 1.01 The Instruments are issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”) in each case in the Specified Denomination(s) shown hereon.
- 1.02 Bearer Instruments are serially numbered and are issued with interest coupons (“**Coupons**”), and, where appropriate, talons for further Coupons (a “**Talon**”) attached, save in the case of Zero Coupon Instruments in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Terms and Conditions are not applicable. Instalment Instruments are issued with one or more receipts for the payment of instalments of principal (the “**Receipts**”) attached.
- 1.03 Registered Instruments are represented by registered certificates (“**Individual Certificates**”) and, save as provided in Condition 2.03, each Individual Certificate shall represent the entire holding of Registered Instruments by the same Holder.
- 1.04 Title to the Bearer Instruments and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Instruments shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Issue and Paying Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder (as defined below) of any Instrument, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Individual Certificate representing it) or its theft or loss (or that of the related Individual Certificate) and no person shall be liable for so treating the Holder.
- 1.05 In these Terms and Conditions, “**Holder**” means the bearer of any Bearer Instruments, Receipt, Coupon or Talon or the person in whose name a Registered Instrument is registered (as the case may be), and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Instruments.

## 2 No Exchange of Instruments and Transfers of Registered Instruments

- 2.01 **No Exchange of Instruments:** Registered Instruments may not be exchanged for Bearer Instruments. Bearer Instruments of one Specified Denomination may not be exchanged for Bearer Instruments of another Specified Denomination. Bearer Instruments may not be exchanged for Registered Instruments.
- 2.02 **Transfer of Registered Instruments:** One or more Registered Instruments may be transferred upon the surrender (at the specified office of the Registrar) of the Individual Certificate representing such Registered Instruments to be transferred, together with the form of transfer endorsed on such Individual Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar may reasonably require. In the case of a transfer of part only of a holding of Registered Instruments represented by one Individual Certificate, a new Individual Certificate shall be issued to the transferee in respect of the part transferred and a further new Individual Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Instruments and entries on the Register will be made subject to the detailed regulations concerning transfers of Instruments set out in the Issue and Paying Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Holders. A copy of the current regulations will be made available by the Registrar to any Holders upon request.
- 2.03 **Exercise of Options or Partial Redemption in Respect of Registered Instruments:** In the case of an exercise of an Issuer’s or Holder’s option in respect of, or a partial redemption of, a holding of Registered Instruments represented by a single Individual Certificate, a new Individual Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Instruments of the same holding having different terms, separate Individual Certificates shall be issued in respect of those Instruments of that holding that have the same terms. New Individual Certificates shall only be issued against surrender of the existing Individual Certificates to the Registrar. In the case of a transfer of Registered Instruments to a person who is already a Holder of Registered Instruments, a new

Individual Certificate representing the enlarged holding shall only be issued against surrender of the Individual Certificate representing the existing holding.

- 2.04 **Delivery of New Individual Certificates:** Each new Individual Certificate to be issued pursuant to Conditions 2.02 or 2.03 shall be available for delivery within three business days of receipt of the form of transfer or redemption notice (under Condition 5.08) and surrender of the Individual Certificate for exchange. Delivery of the new Individual Certificate(s) shall be made at the specified office of the Registrar to whom delivery or surrender of such form of transfer, redemption notice (under Condition 5.08) or Individual Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the form of transfer, redemption notice (under Condition 5.08) or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Individual Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Paying Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.04, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar to whom such request for exchange or form of transfer shall have been delivered.
- 2.05 **Transfer Free of Charge:** Transfers of Instruments and Individual Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).
- 2.06 **Closed Periods:** No Holder may require the transfer of a Registered Instrument to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Instrument, (ii) during the period of 15 days before any date on which Instruments may be called for redemption by the Issuer at its option pursuant to Condition 5.05, (iii) after any such Instrument has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

### 3 Status of the Instruments

#### *Status of Senior Instruments*

- 3.01 The payment obligations of the Issuer under Instruments which specify their status as Ordinary Senior Instruments (“**Ordinary Senior Instruments**”) or as Senior Non Preferred Instruments (“**Senior Non Preferred Instruments**”), together with the Ordinary Senior Instruments “**Senior Instruments**”) in the relevant Final Terms constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer and, in accordance with Additional Provision 14.2° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (and unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Article 92.1° or 92.3° to 92.7° of Law 22/2003 dated 9 July 2003 (*Ley Concursal*) (the “**Insolvency Law**”)), such payment obligations in respect of principal rank:
- (i) in the case of Ordinary Senior Instruments:
    - (a) *pari passu* among themselves and with any Senior Higher Priority Liabilities; and
    - (b) senior to (i) Senior Non Preferred Liabilities and (ii) any present and future subordinated obligations (*créditos subordinados*) of the Issuer in accordance with Article 92 of the Insolvency Law; and
  - (ii) in the case of Senior Non Preferred Instruments:
    - (a) *pari passu* among themselves and with any Senior Non Preferred Liabilities;
    - (b) junior to the Senior Higher Priority Liabilities (and, accordingly, upon the insolvency of the Issuer the claims in respect of Senior Non Preferred Instruments will be met after payment in full of the Senior Higher Priority Liabilities); and
    - (c) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer in accordance with Article 92 of the Insolvency Law.

*Claims of Holders of Senior Instruments in respect of interest accrued but unpaid as of the commencement of any insolvency procedure in respect of the Issuer shall constitute subordinated*

*claims (créditos subordinados) against the Issuer ranking in accordance with the provisions of Article 92.3° of the Insolvency Law and no further interest shall accrue from the date of the declaration of insolvency of the Issuer.*

*The obligations of the Issuer under the Senior Instruments are subject to the Bail-in Power.*

For the purposes of the Terms and Conditions:

“**Law 11/2015**” means Law 11/2015 of 18 June on recovery and resolution of credit institutions and investment firms, as amended from time to time;

“**Senior Higher Priority Liabilities**” means any obligations in respect of principal of the Issuer under any Ordinary Senior Instruments and any other unsecured and unsubordinated obligations (*créditos ordinarios*) of the Issuer, other than the Senior Non Preferred Liabilities; and

“**Senior Non Preferred Liabilities**” means any unsubordinated and unsecured senior non preferred obligations (*créditos ordinarios no preferentes*) of the Issuer under Additional Provision 14.2° of Law 11/2015, as amended by Royal Decree-Law 11/2017, of 23 June, on urgent measures in financial matters, and as further amended from time to time, (including any Senior Non Preferred Instruments) and any other obligations which, by law and/or by their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Senior Non Preferred Liabilities.

*The Issuer expects that upon insolvency, the payment obligations in respect of principal under the Senior Non Preferred Instruments would rank pari passu with any obligations in respect of principal of any second ranking senior instruments issued under the Programme or any other securities with the same ranking issued by the Issuer.*

### **Status of the Subordinated Instruments**

3.02 The payment obligations of the Issuer under Instruments which specify their status as Subordinated Instruments in the relevant Final Terms (“**Subordinated Instruments**”, which may be, in turn, Senior Subordinated Instruments (“**Senior Subordinated Instruments**”) or Tier 2 Subordinated Instruments (“**Tier 2 Subordinated Instruments**”), as specified in the relevant Final Terms) on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law and, in accordance with Additional Provision 14.3° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (unless they qualify as subordinated claims (*créditos subordinados*) pursuant to Articles 92.3° to 92.7° of the Insolvency Law) rank:

- (i) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Senior Subordinated Liabilities of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Senior Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations (*créditos subordinados*) under Articles 92.3° to 92.7° of the Insolvency Law, and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer’s obligations under the relevant Subordinated Instruments;
- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer (including any Senior Non Preferred Liabilities), (ii) any subordinated obligations (*créditos subordinados*) of the Issuer which become subordinated pursuant to article 92.1° of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer’s obligations under the relevant Subordinated Instruments; and
- (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments or Tier 2 Instruments, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3° to 92.7° of the Insolvency Law, (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted

by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments; and

- (ii) for so long as the obligations of the Issuer in respect of the relevant Subordinated Instruments constitute Tier 2 Instruments of the Issuer:

*This would be expected to be the case if the Subordinated Instruments are specified as Tier 2 Subordinated Instruments in the relevant Final Terms.*

- (a) *pari passu* among themselves and with (i) all other claims for principal in respect of Tier 2 Instruments which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law, and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Issuer's obligations under the relevant Subordinated Instruments;
- (b) junior to (i) any unsubordinated obligations (*créditos ordinarios*) of the Issuer (including any Senior Non Preferred Liabilities), (ii) any subordinated obligations (*créditos subordinados*) of the Issuer under Article 92.1° of the Insolvency Law, (iii) any claim for principal in respect of Senior Subordinated Liabilities which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law and (iv) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the relevant Subordinated Instruments; and
- (c) senior to (i) any claims for principal in respect of Additional Tier 1 Instruments of the Issuer, (ii) any subordinated obligations (*créditos subordinados*) under Articles 92.3° to 92.7° of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) of the Issuer which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the obligations of the Issuer under the relevant Subordinated Instruments.

*The obligations of the Issuer under the Subordinated Instruments are subject to the Bail-in Power.*

For the purposes of the Terms and Conditions:

**"Applicable Banking Regulations"** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator and/or the Relevant Resolution Authority, in each case to the extent then in effect in Spain (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group);

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

**"Bail-in Power"** means any power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Kingdom of Spain, relating to (i) the transposition of the BRRD (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) as amended or superseded from time to time, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended or superseded from time to time, the **"SRM Regulation"**) and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of a Regulated Entity (or an affiliate of such Regulated Entity) can be reduced, cancelled, suspended, modified, or converted into shares, other securities, or other obligations of such Regulated Entity (or affiliate of such Regulated Entity);

“**BRRD**” means Directive 2014/59/EU of 15 May establishing the framework for the recovery and resolution of credit institutions and investment firms or such other directive as may come into effect in place thereof, as implemented into Spanish law by Law 11/2015 and RD 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

“**CRD IV**” means any, or any combination of, the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

“**CRD IV Directive**” means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended from time to time, or such other directive as may come into effect in place thereof;

“**CRD IV Implementing Measures**” means any rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a stand alone basis) or the Group (on a consolidated basis) and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital or the minimum requirement for own funds and eligible liabilities, as the case may be, of the Issuer (on a stand alone basis) or the Group (on a consolidated basis);

“**CRR**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms, as amended from time to time, or such other regulation as may come into effect in place thereof;

“**Group**” means the Issuer and its consolidated subsidiaries;

“**Law 11/2015**” means Law 11/2015 of 18 June on recovery and resolution of credit institutions and investment firms, as amended from time to time;

“**RD 1012/2015**” means Royal Decree 1012/2015 of 6 November implementing Law 11/2015;

“**Regulated Entity**” means any entity to which BRRD, as implemented in the Kingdom of Spain (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) and as amended or superseded from time to time, or any other Spanish piece of legislation relating to the Bail-in Power, applies, which includes, certain credit institutions, investment firms, and certain of their parent or holding companies;

“**Regulator**” means the European Central Bank or such other or successor governmental authority exercising primary bank supervisory authority from time to time, in each case with respect to prudential matters in relation to the Issuer and/or the Group;

“**Senior Subordinated Liabilities**” means any contractually subordinated obligation (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law, ranking as subordinated debt which is not an Additional Tier 1 Instrument or a Tier 2 Instrument (*deuda subordinada que no sea capital adicional de nivel 1 o 2*) under Additional Provision 14.3°(a) of Law 11/2015; and

“**Tier 2 Instrument**” means any contractually subordinated obligation (*créditos subordinados*) of the Issuer according to Article 92.2° of the Insolvency Law, ranking as a tier 2 instrument (*instrumentos de capital de nivel 2*) under Additional Provision 14.3°(b) of Law 11/2015.

#### 4 Interest

Instruments may be interest-bearing. The Final Terms in relation to each Tranche of Instruments shall specify which of Condition 4A, 4B, 4C or 4D shall be applicable and Condition 4E will be applicable to each Tranche of Instruments save for where Condition 4D applies, and further save, in each case, to the extent inconsistent with the relevant Final Terms. In relation to any Tranche of Instruments, the relevant Final Terms may specify actual amounts of interest payable rather than, or in addition to, a rate or rates at which interest accrues.

#### 4A Interest — Fixed Rate

*This Condition 4A applies to Fixed Rate Instruments only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4A for full information on the manner in which interest is calculated on Fixed Rate Instruments.*

Instruments in relation to which this Condition 4A applies and the relevant Final Terms specify as being applicable shall bear interest from (and including) their Issue Date or from such other Interest Commencement Date as may be specified in the relevant Final Terms at the rate or rates per annum equal to the Rate of Interest specified in the relevant Final Terms (or otherwise, as specified in the relevant Final Terms). Such interest will be payable in arrear on each Interest Payment Date specified in the relevant Final Terms and on the date Maturity Date. Interest in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

#### 4B Interest — Reset Instruments

*This Condition 4B applies to Reset Instruments only. The applicable Final Terms contain provisions applicable to the determination of reset rate interest and must be read in conjunction with this Condition 4B for full information on the manner in which interest is calculated on Reset Instruments.*

##### **Rates of Interest and Interest Payment Dates**

4B.01 Instruments in relation to which this Condition 4B applies and the relevant Final Terms specify as being applicable shall bear interest:

- (A) from (and including) their Issue Date or from such other date as may be specified in the relevant Final Terms until (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (B) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (C) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

the relevant Rate of Interest being payable, in each case, on each Interest Payment Date specified in the relevant Final Terms and on the Maturity Date. The Interest Amount in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

For the purposes of these Terms and Conditions:

“**First Margin**” means the margin specified as such in the applicable Final Terms;

“**First Reset Date**” means the date specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

“**First Reset Period**” means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

“**First Reset Rate of Interest**” means, in respect of the First Reset Period and subject to Condition 4B.02, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

“**Initial Rate of Interest**” has the meaning specified in the applicable Final Terms;

“**Mid-Swap Rate**” means, in relation to a Reset Determination Date and subject to Condition 4B.02, either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page (as specified in the applicable Final Terms) or such replacement page on that service which displays the information; or

- (ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards), of the bid and offered swap rate quotations for swaps in the Specified Currency:

- (A) with a term equal to the relevant Reset Period; and

- (B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page (as specified in the applicable Final Terms) or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

**“Reset Business Day”** means a day on which commercial banks are open for business and foreign exchange markets settle payments in any Reset Business Centre specified in the relevant Final Terms;

**“Reset Date”** means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

**“Reset Determination Date”** means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Reset Business Day prior to the first day of each such Subsequent Reset Period;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period, as the case may be;

**“Second Reset Date”** means the date specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

**“Subsequent Margin”** means the margin specified as such in the applicable Final Terms;

**“Subsequent Reset Date”** means the date or dates specified in the applicable Final Terms as adjusted (if so specified in the applicable Final Terms) as if the relevant Reset Date was an Interest Payment Date;

**“Subsequent Reset Period”** means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period and subject to Condition 4B.02, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

#### **4B.02 *Fallbacks***

If on any Reset Determination Date, the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum of

the relevant Mid-Market Swap Rate Quotation (rounded, if necessary, to the nearest 0.001 per cent (0.0005 per cent. being rounded upwards)) and the First or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be (i) the rate determined on the previous Reset Determination Date (if any) or (ii) if there is no such previous Reset Determination Date, the Initial Rate of Interest, in each case, substituting, where a different margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the margin relating to the relevant Interest Period in place of the margin relating to that last preceding Interest Period.

For the purposes of this Condition 4B.02:

**“Mid-Market Swap Rate”** means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration specified in the relevant Final Terms (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

**“Mid-Market Swap Rate Quotation”** means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

**“Mid-Swap Floating Leg Benchmark Rate”** means EURIBOR if the Specified Currency is euro or LIBOR if the Specified Currency is not euro; and

**“Reference Banks”** means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

#### **4C Interest — Floating Rate Instruments and CMS-Linked Instruments**

*This Condition 4C applies to Floating Rate Instruments and CMS-Linked Instruments. The applicable Final Terms contain provisions applicable to the determination of interest in respect of such Instruments and must be read in conjunction with this Condition 4C for full information on the manner in which interest is calculated on Floating Rate Instruments and CMS-Linked Instruments.*

4C.01 Instruments in relation to which this Condition 4C applies and the relevant Final Terms specify as being applicable, shall bear interest at the rate or rates per annum (or otherwise, as specified in the relevant Final Terms) determined in accordance with this Condition 4C. The Rate of Interest payable from time to time in respect of Floating Rate Instruments and CMS-Linked Instruments will be determined in the manner specified in the applicable Final Terms.

4C.02 Such Instruments shall bear interest from (and including) their Issue Date or from such other Interest Commencement Date as may be specified in the relevant Final Terms. Such interest will be payable in arrear on each Interest Payment Date and on the Maturity Date. The Interest Amount in respect of a period of less than one year will be calculated on such basis as may be specified in Condition 4E.02 and the relevant Final Terms.

##### **4C.03 Screen Rate Determination**

If **“Screen Rate Determination”** is specified in the relevant Final Terms as the manner in which the Rate of Interest (the **“Screen Rate”**) is to be determined, the Rate of Interest applicable to such Instruments for each Interest Period will be determined by the Calculation Agent (as defined in Condition 4E.05) on the following basis:

- (A) if the Reference Rate (as defined in Condition 10C) is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page (as defined in Condition 10C) as of the Relevant Time (as defined in Condition 10C) on the relevant Interest Determination Date (as defined in Condition 10C);
- (B) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (C) if, in the case of (A) above, such rate does not appear on that page or, in the case of (B) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (1) request the principal Relevant Financial Centre (as defined in Condition 10C) office of each of the Reference Banks (as defined in Condition 10C) to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date offered to leading banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (2) determine the arithmetic mean of such quotations; and
- (D) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Relevant Financial Centre (or in the case of Instruments denominated in euro, in such financial centre(s) as the Calculation Agent may select), selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Relevant Financial Centre or local time at such other financial centre(s) as aforesaid) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time and the Screen Rate for such Interest Period shall be the rate or (as the case may be) the arithmetic mean so determined,

provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Screen Rate will be the rate or (as the case may be) the arithmetic mean last determined in relation to the Instruments in respect of a preceding Interest Period, substituting, where a different margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the margin relating to the relevant Interest Period in place of the margin relating to that last preceding Interest Period.

**4C.04 ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest applicable to the Instruments for each Interest Period will be the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the 2006 Definitions of the International Swaps and Derivatives Association, Inc. as amended and updated as at the Issue Date of the first Tranche of Instruments of the relevant Series, (the “**ISDA Definitions**”)) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

**4C.05 Rate of Interest:** The Rate of Interest in relation to the Instruments shall be determined as follows:

- (A) If “Margin Plus Rate” is specified as applicable in the applicable Final Terms, the Rate of Interest will be equal to the Margin plus the Screen Rate or ISDA Rate, as applicable;

- (B) If “Specified Percentage Multiplied by Rate” is specified in the applicable Final Terms, the Rate of Interest will be equal to the Specified Percentage multiplied by the Screen Rate or ISDA Rate, as applicable; or
- (C) If “Difference in Rates” is specified in the applicable Final Terms, the Rate of Interest will be equal to the Specified Percentage multiplied by the difference between Rate 1 and Rate 2, each of Rate 1 and Rate 2 to be determined in accordance with Condition 4C.03 or with Condition 4C.04 as specified in the relevant Final Terms.

**4C.06 Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then, subject to Condition 4E.01, the Rate of Interest shall in no event be greater than the Maximum Rate of Interest or be less than the Minimum Rate of Interest so specified. Where the Rate of Interest is determined to be higher than the Maximum Rate of Interest or lower than the Minimum Rate of Interest, such higher rate shall be deemed to be equal to such Maximum Rate of Interest and such lower rate shall be deemed to be equal to such Minimum Rate of Interest, as applicable.

**4C.07 CMS Linked Interest Provisions:** If the CMS-Linked Interest Instruments Provisions are specified in the relevant Final Terms as being applicable, the Rate of Interest applicable to the Instruments for each Interest Period will be calculated by reference to a constant maturity swap rate specified in the relevant Final Terms and the relevant provisions of this Condition 4C will apply as though references to Floating Rate Instruments were references to CMS-Linked Instruments where “Screen Rate Determination” and “Margin Plus Rate” are applicable.

#### **4D Interest — Zero Coupon Instruments**

*This Condition 4D applies to Zero Coupon Instruments only. The applicable Final Terms contain provisions applicable to the determination of zero coupon interest and must be read in conjunction with this Condition 4D for full information on the manner in which interest is calculated on Zero Coupon Instruments.*

Instruments in relation to which this Condition 4D applies and the relevant Final Terms specify as being applicable shall not bear interest. Where such Zero Coupon Instrument is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount (Zero Coupon) (as defined in Condition 5.05). As from the Maturity Date, the Rate of Interest for any overdue principal of such an Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 5.05).

#### **4E Interest — Supplemental Provision**

##### **4E.01 Step Up Provisions:**

- (a) This Condition 4E.01 applies to Ordinary Senior Instruments if the Step Up Provisions are specified in the relevant Final Terms as being applicable. If so applicable, the rate of interest payable on Ordinary Senior Instruments will be subject to adjustment from time to time, as follows:
  - (i) subject to paragraph (iii) below, from and including the first Interest Payment Date following the date a Step Down Rating Change occurs, the rate of interest payable on the Ordinary Senior Instruments shall be the Initial Interest Rate. For the avoidance of doubt, the rate of interest payable on the Ordinary Senior Instruments shall remain at the Initial Interest Rate notwithstanding any further increase in the rating assigned to the Senior Instruments above BBB-/Baa3 (or equivalent);
  - (ii) subject to paragraph (iii) below, from and including the first Interest Payment Date following the date a Step Up Rating Change occurs, the rate of interest payable on the Ordinary Senior Instruments shall be the Initial Interest Rate plus the applicable Step Up Margin specified in the relevant Final Terms (together, the “**Increased Rate of Interest**”). For the avoidance of doubt, the rate of interest payable on the Ordinary Senior Instrument shall remain at the Increased Rate of Interest notwithstanding any further decrease in the rating of the Senior Instruments below BB+/Ba1 (or equivalent); and
  - (iii) if, within the same Interest Period, at least one Step Up Rating Change and at least one Step Down Rating Change occurs (A) where the majority of Rating Agencies announce a Step Down Rating Change, paragraph (i) above shall apply, (B) where the majority of Rating Agencies

announce a Step Up Rating Change, paragraph (ii) above shall apply and (C) otherwise, the rate of interest payable on the Ordinary Senior Instrument shall neither be increased nor decreased.

- (b) Notwithstanding any other provision of this Condition 4E.01, there shall be no adjustment in the rate of interest applicable to the Ordinary Senior Instruments (1) on the basis of any rating assigned to the Senior Instrument by any rating agency other than on a basis solicited by or on behalf of the Issuer even if at the relevant time such rating is the only rating then assigned to the Ordinary Senior Instruments and (2) at any time after notice of redemption has been given pursuant to Conditions 5.06 or 5.07.
- (c) There shall be no limit on the number of times that adjustments to the rate of interest payable on the Senior Instruments may be made pursuant to this Condition 4E.01 during the term of the Ordinary Senior Instruments, provided always that at no time during the term of the Ordinary Senior Instruments will the rate of interest payable on the Ordinary Senior Instruments be less than the Initial Interest Rate or more than the Increased Rate of Interest.
- (d) In the event the rate of interest payable on the Ordinary Senior Instruments is the (ii) Increased Rate of Interest, any Maximum Rate of Interest or Minimum Rate of Interest specified hereon shall be increased by the Step Up Margin specified hereon and (ii) Initial Interest Rate as a result of a Step Down Rating Change, the Maximum Rate of Interest and the Minimum Rate of Interest shall be restored to the Maximum Rate of Interest and the Minimum Rate of Interest specified hereon.
- (e) If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in this Condition 4E.01, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 4E.01 shall be read accordingly.
- (f) The Issuer will cause the occurrence of an event giving rise to an adjustment in the rate of interest payable on the Ordinary Senior Instruments pursuant to this Condition 4E.01 to be notified to the Issue and Paying Agent and notice thereof to be given in accordance with Condition 15 as soon as possible after the occurrence of the relevant event.

In these Terms and Conditions:

**"Initial Interest Rate"** means the initial Rate of Interest either specified or calculated in accordance with the provisions hereon;

**"Fitch"** means Fitch Ratings Ltd. or any of its affiliates or successor;

**"Moody's"** means Moody's Investors Service Limited or any of its affiliates or successor;

**"Rating Agencies"** means Moody's, Fitch, S&P or any other rating agency selected by the Issuer from time to time to assign a credit rating to the relevant Ordinary Senior Instruments (a **"Substitute Rating Agency"**) and **"Rating Agency"** means any one of them;

**"S&P"** means Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its affiliates or successor;

**"Step Down Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Ordinary Senior Instruments of an increase in or a confirmation of the rating of the Ordinary Senior Instruments to or as BBB-/Baa3 (or equivalent) or better; and

**"Step Up Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Ordinary Senior Instruments of a decrease in or a confirmation of the rating of the Ordinary Senior Instruments to or as BB+/Ba1 (or equivalent) or below.

- 4E.02 The Calculation Agent will, as soon as practicable after determining the Rate of Interest in relation to each Interest Period, calculate the Interest Amount. The Interest Amount payable per Calculation Amount in respect of any Instrument for any Interest Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms, and the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in which case the amount of interest payable per Calculation Amount in respect of such Instrument for such Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula). In respect of any period for which interest is required to be calculated, the provisions above

shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

In this condition 4E.02:

**“Interest Amount”** means: (i) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period and which, in the case of Fixed Rate Instruments, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the relevant Interest Period; and (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

***Interest Payment Date Conventions and other Calculations***

4E.02(a) Business Day Convention: The Final Terms in relation to each Series of Instruments shall specify which of the following conventions shall be applicable, namely:

- (i) the **“FRN Convention”**, in which case interest shall be payable in arrear on each date (each an Interest Payment Date) which numerically corresponds to the date of issue or such other Interest Commencement Date as may be specified in the relevant Final Terms or, as the case may be, the preceding Interest Payment Date in the calendar month which is the number of months specified in the relevant Final Terms after the calendar month in which such date of issue or such Interest Commencement Date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred *provided that*:
  - (a) if there is no such numerically corresponding day in the calendar month in which an Interest Payment Date should occur, then the relevant Interest Payment Date will be the last day which is a Business Day (as defined in Condition 10C.03) in that calendar month;
  - (b) if an Interest Payment Date would otherwise fall on a day which is not a Business Day, then the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (c) if such date of issue or such other date as aforesaid or the preceding Interest Payment Date occurred on the last day in a calendar month which was a Business Day, then all subsequent Interest Payment Dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which such date of issue or such other date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred;
- (ii) the **“Modified Following Business Day Convention”**, in which case interest shall be payable in arrear on each Interest Payment Date specified in the relevant Final Terms *provided that*, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date will be the first preceding day which is a Business Day;
- (iii) the **“Following Business Day Convention”** in which case interest shall be payable in arrear on each Interest Payment Date specified in the relevant Final Terms *provided that*, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the relevant Interest Payment Date will be the first following day which is a Business Day; or
- (iv) **“No Adjustment”** in which case the relevant date shall not be adjusted in accordance with any Business Day Convention.

4E.03(b) **“Day Count Fraction”** means, in respect of the calculation of an amount for any period of time (**“Calculation Period”**), such day count fraction as may be specified in the Final Terms and:

- (i) if **“Actual/Actual”** or **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period

falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;

- (iii) if “**Actual/Actual (ICMA)**” is so specified hereon,

if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

if the Calculation Period is longer than one Determination Period, the sum of:

- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified in in the relevant Final Terms or, if none is so specified, the Interest Payment Date(s);

- (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;

- (v) if “**30/360**” “**360/360**” or “**Bond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ $Y_1$ ” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“ $Y_2$ ” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“ $M_1$ ” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“ $M_2$ ” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“ $D_1$ ” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case  $D_1$  will be 30; and

“ $D_2$ ” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30.

- (vii) if “**30E/360 (ISDA)**” is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Termination Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

Each period beginning on (and including) the Issue Date or such Interest Commencement Date as aforesaid and ending on (but excluding) the first Interest Payment Date and each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an “**Interest Period**”.

#### ***Notification of Rates of Interest, Interest Amounts and Interest Payment Dates***

4E.04 The Calculation Agent will cause each Rate of Interest, Interest Payment Date, final day of a Calculation Period, Interest Amount or other item, as the case may be, determined or calculated by it to be notified to the Issuer and the Issue and Paying Agent. The Issue and Paying Agent will cause all such determinations or calculations to be notified to the other Paying Agents and, in the case of Registered Instruments, the Registrar (from whose respective specified offices such information will be available) and to the Holders in accordance with Condition 15 as soon as practicable after such determination or calculation but in any event not later than the fourth London Banking Day thereafter or, if earlier, in the case of notification to any listing authority, stock exchange and/or quotation system, the time required by the rules of any such listing authority, stock exchange and/or quotation system. The Issue and Paying Agent will cause all such determinations or calculations to be notified to the Irish Stock Exchange no later than the first day of each Interest Period. The Calculation Agent will

be entitled to amend any Interest Amount or Interest Payment Date or final day of a Calculation Period (or to make appropriate alternative arrangements by way of adjustment) without prior notice in the event of the extension or abbreviation of any relevant Interest Period or Calculation Period and such amendment will be notified in accordance with the first two sentences of this Condition 4E.04.

- 4E.05 The determination by the Calculation Agent of all items falling to be determined by it pursuant to these Terms and Conditions shall, in the absence of manifest error, be final and binding on all parties.

**“Calculation Agent”** means the Issue and Paying Agent or such other person specified in the relevant Final Terms as the party responsible for calculating the Rate of Interest and the Interest Amount and such other amount(s) as may be specified in the relevant Final Terms.

### ***Accrual of Interest***

- 4E.06 Interest shall accrue on the principal amount of each Instrument or, in the case of an Instalment Instrument, on each instalment of principal, (in each case other than a Zero Coupon Instrument) on the paid up principal amount of such Instrument or otherwise as indicated in the Final Terms from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment thereof) unless upon (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) due presentation or surrender thereof, payment in full of the principal amount or the relevant instalment or, as the case may be, redemption amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue thereon (as well after as before any demand or judgment) at the rate then applicable to the principal amount of the Instruments or such other rate as may be specified in the relevant Final Terms (the “Default Rate”) until the earlier of (i) the date on which, upon due presentation of the relevant Instrument (if required), the relevant payment is made or (ii) (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) the seventh day after the date on which notice is given to the Holders in accordance with Condition 15 that the Issue and Paying Agent or the Registrar (as the case may be) has received the funds required to make such payment (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

## **5 Redemption and Purchase**

### ***Redemption at Maturity***

- 5.01 Unless previously redeemed, or purchased and cancelled, each Instrument shall be finally redeemed at its maturity redemption amount (the **“Maturity Redemption Amount”**) (which shall be its principal amount or such other Maturity Redemption Amount as may be specified in the relevant Final Terms or, in the case of Instalment Instruments, in such number of instalments and in such amounts as may be specified in the relevant Final Terms) on the Maturity Date specified in the relevant Final Terms. Tier 2 Subordinated Instruments will have a maturity of not less than five years or as otherwise permitted in accordance with Applicable Banking Regulations in force at the relevant time.

### ***Early Redemption for Taxation Reasons***

- 5.02 If, in relation to any Series of Instruments, as a result of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application or interpretation of any such laws or regulations, including a decision of any court or tribunal, which change or amendment becomes effective on or after the Issue Date of such Instruments, (a) in making any payments on the Instruments, the Issuer has paid or will or would be required to pay additional amounts as provided in Condition 10 or (b) in the case of Subordinated Instruments and Senior Non Preferred Instruments, the Issuer is no longer entitled to claim a deduction in respect of any payments in relation to the Subordinated Instruments or the Senior Non Preferred Instruments in computing its taxation liabilities or the value of such deduction to the Issuer would be materially reduced, or (c) in the case of Subordinated Instruments and Senior Non Preferred Instruments, the applicable tax treatment of the Subordinated Instrument or the Senior Non Preferred Instruments changes and such circumstances are evidenced by the delivery by the Issuer to the Issue and Paying Agent and the Commissioner of (x) a certificate signed by two Authorised Signatories stating that the relevant circumstances giving rise to the right to redeem prevail and describing the facts leading thereto, (y) an opinion of independent legal advisers of national recognised standing or other national tax adviser experienced in such matters to the effect that the relevant

circumstances prevail and (z) in the case of Subordinated Instruments and Senior Non Preferred Instruments, a copy of the Regulator's and/or Relevant Resolution Authority's consent (if and as required therefor under Applicable Banking Regulations) to the redemption, to the extent required, the Issuer may, at its option and having given no less than 30 nor more than 60 calendar days' notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 15, the Holders of the Instruments (which notice shall be irrevocable and shall specify the date fixed for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the **"Early Redemption Amount (Tax)"**) (which shall be their principal amount or at such other Early Redemption Amount (Tax) as may be specified in the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption *provided, however*, that no such notice of redemption may be given earlier than 90 calendar days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer (i) would be obliged to pay additional amounts, (ii) would no longer be entitled to claim a deduction or the amount of such deduction would be materially reduced or (iii) would be obliged to apply the applicable tax treatment.

In the case of Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments eligible to comply with TLAC/MREL Requirements, redemption for taxation reasons will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) of the CRR provides that the Regulator may only permit the redemption of Tier 2 Subordinated Instruments before the fifth anniversary of the Issue Date for taxation reasons if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, there is a change in the applicable tax treatment of the instruments and the institution demonstrates to the satisfaction of the Regulator that such change is material and was not reasonably foreseeable at the Issue Date.*

For the purposes of these Terms and Conditions, **"Relevant Resolution Authority"** means the *Fondo de Resolución Ordenada Bancaria* (FROB), the Single Resolution Board (SRB) established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Bail-in Power from time to time.

#### ***Early Redemption due to Capital Disqualification Event***

- 5.03 If, in the case of Tier 2 Subordinated Instruments only, a Capital Disqualification Event occurs as a result of a change (or any pending change which the Regulator considers sufficiently certain) in Spanish law or Applicable Banking Regulations becoming effective on or after the Issue Date, the Issuer may, at its option and having given not less than 30 nor more than 60 calendar days' notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 15, the Holders of the Tier 2 Subordinated Instruments (which notice shall be irrevocable and shall specify the date fixed for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the Tier 2 Subordinated Instruments.

Tier 2 Subordinated Instruments redeemed pursuant to this Condition 5.03 will be redeemed at their early redemption amount (the **"Early Redemption Amount (Capital Disqualification Event)"**) (which shall be their principal amount or a such other Early Redemption Amount (Capital Disqualification Event) as may be specified in the relevant Final Terms) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Redemption of Tier 2 Subordinated Instruments for regulatory reasons pursuant to this Condition 5.03 is subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) provides that the Regulator may only permit the redemption of Tier 2 Subordinated Instruments before the fifth anniversary of the Issue Date for regulatory reasons if, in addition to*

*meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) (as described below), there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the institution demonstrates to the satisfaction of the Regulator that the regulatory classification was not reasonably foreseeable at the Issue Date.*

For the purposes of these Terms and Conditions:

**“Capital Disqualification Event”** means the determination by the Issuer after consultation with the Regulator that the Tier 2 Subordinated Instruments are not eligible for inclusion in whole or, to the extent not prohibited by Applicable Banking Regulations, in part, in the Tier 2 Capital of the Issuer or the Group pursuant to Applicable Banking Regulations or any other regulations applicable in Spain from time to time (other than as a result of any applicable limitation on the amount of such capital as applicable to the Issuer); and

**“Tier 2 Capital”** means tier 2 capital (*capital de nivel 2*) as provided under the Applicable Banking Regulations.

#### **Early Redemption due to TLAC/MREL Disqualification Event**

- 5.04 If, in the case of Senior Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms only, following the TLAC/MREL Requirement Date, a TLAC/MREL Disqualification Event has occurred and is continuing, then the Issuer may, at its option and having given not less than 30 nor more than 60 days’ notice to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 15, the Holders of the relevant Instruments (as applicable) (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions all, but not some only, of the relevant Instruments (as applicable). Upon the expiry of such notice, the Issuer shall redeem the relevant Instruments (as applicable).

Instruments redeemed pursuant to this Condition 5.04 will be redeemed at their early redemption amount (the **“Early Redemption Amount (TLAC/MREL Disqualification Event)”**) (which shall be their principal amount or such other Early Redemption Amount (TLAC/MREL Disqualification Event) as may be specified in or determined in accordance with the relevant Final Terms) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Redemption of Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms, for regulatory reasons pursuant to this Condition 5.04 will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

For the purposes of these Terms and Conditions:

**“Applicable TLAC/MREL Regulations”** means, at any time, the laws, regulations, requirements, guidelines and policies then in effect in the Kingdom of Spain giving effect to the MREL and the principles set forth in the FSB TLAC Term Sheet or any successor principles then applicable to the Issuer and/or the Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies giving effect to the MREL and the principles set forth in the FSB TLAC Term Sheet or any successor principles then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group);

**“EC Proposals”** means the European Commission’s proposals to amend and supplement certain provisions of the CRD IV Directive, the CRR, the SRM Regulation and the BRRD;

**“FSB TLAC Term Sheet”** means the Total Loss-absorbing Capacity (TLAC) term sheet set forth in the document dated 9 November 2015 published by the Financial Stability Board, entitled “Principles on Loss-absorbing and Recapitalisation Capacity of G-SIIs in Resolution”, as amended from time to time;

“**MREL**” means the “minimum requirement for own funds and eligible liabilities” for credit institutions under the BRRD, set in accordance with Article 45 of the BRRD (as transposed in Spain), Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016, supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, or any successor requirement under EU legislation and relevant implementing legislation and regulation in Spain;

“**TLAC/MREL Disqualification Event**” means at any time, on or following the TLAC/MREL Requirement Date, that all or part of the outstanding nominal amount of the Senior Subordinated Instruments, the Senior Non Preferred Instruments or the Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms does not fully qualify as TLAC/MREL-Eligible Instruments of the Issuer and/or the Group, except where such non-qualification (i) is due solely to the remaining maturity of the relevant Instruments (as applicable) being less than any period prescribed for TLAC/MREL-Eligible Instruments by the Applicable TLAC/MREL Regulations or (ii) is as a result of the relevant Instruments (as applicable) being bought back by or on behalf of the Issuer or a buy back of the relevant Instruments which is funded by or on behalf of the Issuer or (iii) in the case of Ordinary Senior Instruments where the TLAC/MREL Disqualification Event has been specified as applicable in the relevant Final Terms, is due to the relevant Ordinary Senior Instruments not meeting any requirement in relation to their ranking upon insolvency of the Issuer or any limitation on the amount of such Instruments that may be eligible for the inclusion in the amount of TLAC/MREL-Eligible Instruments of the Issuer and/or the Group.

A TLAC/MREL Disqualification Event shall, without limitation, be deemed to include where any non-qualification of the Senior Subordinated Instruments, Senior Non Preferred Instruments or, as applicable, Ordinary Senior Instruments as TLAC/MREL-Eligible Instruments arises as a result of (a) any legislation which gives effect to the EC Proposals in the Kingdom of Spain differing in any respect from the form of the EC Proposals as published by the European Commission on 23 November 2016 (the “**Draft EC Proposals**”) (including if the EC Proposals are not implemented in full in the Kingdom of Spain), or (b) the official interpretation or application of the Draft EC Proposals or the EC Proposals as implemented in the Kingdom of Spain (including any interpretation or pronouncement by any relevant court, tribunal or authority) differing in any respect from the manner in which the Draft EC Proposals have been reflected in these Terms and Conditions;

“**TLAC/MREL-Eligible Instrument**” means an instrument that complies with the TLAC/MREL Requirements;

“**TLAC/MREL Requirement Date**” means the time from which the Issuer and/or the Group is obliged to meet any TLAC/MREL Requirements; and

“**TLAC/MREL Requirements**” means the total loss-absorbing capacity requirements and/or minimum requirement for own funds and eligible liabilities applicable to the Issuer and/or the Group under the Applicable TLAC/MREL Regulations.

#### ***Early Redemption (Zero Coupon Instruments)***

5.05

- (a) The early redemption amount payable in respect of any Zero Coupon Instrument (the “**Early Redemption Amount (Zero Coupon)**”) upon redemption of such Instrument pursuant to Condition 5.02, Condition 5.03, Condition 5.04, Condition 5.06 or Condition 5.08 or upon it becoming due and payable as provided in Condition 6 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified hereon.
- (b) Subject to the provisions of sub-paragraph (c) below, the “**Amortised Face Amount**” of any such Instrument shall be the scheduled Maturity Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is set out in the relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.
- (c) If the Early Redemption Amount (Zero Coupon) payable in respect of any such Instrument upon its redemption pursuant to Condition 5.02, Condition 5.03, Condition 5.04, Condition 5.06 or Condition

5.08 or upon it becoming due and payable as provided in Condition 6 is not paid when due, the Early Redemption Amount (Zero Coupon) due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the date on which the Instrument becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Maturity Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 4E.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

**Optional Early Redemption (Call)**

- 5.06 If Call Option is specified in the relevant Final Terms as being applicable, then the Issuer may, having given not less than 30 calendar days' notice (or such lesser period as may be specified in the relevant Final Terms) to the Registrar (in the case of Registered Instruments), the Issue and Paying Agent and, in accordance with Condition 15, the Holders of the Instruments (which notice shall be signed by two duly Authorised Signatories, shall be irrevocable and shall specify the date for redemption) and subject to such conditions as may be specified in the relevant Final Terms, redeem all (but not, unless and to the extent that the relevant Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Early Redemption Amount (Call)**") (which shall be their principal amount or such other Early Redemption Amount (Call) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption.

In the case of Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments eligible to comply with TLAC/MREL Requirements, redemption at the option of the Issuer pursuant to this Condition 5.06 will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(1) of the CRR provides that the Regulator will give its consent to a redemption of Tier 2 Subordinated Instruments in such circumstances provided that either of the following conditions is met:*

- (a) *on or before such redemption of the Tier 2 Subordinated Instruments, the institution replaces the Tier 2 Subordinated Instruments with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the institution; or*
- (b) *the institution has demonstrated to the satisfaction of the Regulator that its own funds would, following such redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV Directive by a margin that the Regulator may consider necessary on the basis of Article 104(3) of the CRD IV Directive.*

- 5.07 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 5.06:
- (a) in the case of Bearer Instruments, the Instruments to be redeemed shall be drawn by lot, with the intervention of the relevant Commissioner and before a Notary Public who will take the minutes, in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair; and
  - (b) in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) pro rata to their principal amounts, subject always as aforesaid and provided always that the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments may be listed and/or quoted.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.02 to 2.06 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

#### ***Optional Early Redemption (Put)***

- 5.08 If Put Option is specified as applicable in the relevant Final Terms, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the Early Redemption Date(s) specified in the relevant Final Terms at its put early redemption amount (the “**Early Redemption Amount (Put)**”) (which shall be its principal amount or such other Early Redemption Amount (Put) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption. In order to exercise such option, the Holder must, not less than 60 calendar days before the date so specified (or such other period as may be specified in the relevant Final Terms), deposit the relevant Instrument together with any unmatured Coupons appertaining thereto with, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed redemption notice in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.02 to 2.09 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The Holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of an exercise by the Issuer of its option to redeem such Instrument under Conditions 5.06.

#### ***Redemption by Instalments***

- 5.09 Unless previously redeemed, purchased and cancelled as provided in this Condition 5, each Instrument which provides for Instalment Dates and Instalment Amounts in the relevant Final Terms will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Instrument shall be reduced by the Instalment Amount for all purposes.

#### ***Cancellation of Redeemed Instruments***

- 5.10 All unmatured Instruments and Coupons and unexchanged Talons redeemed (*amortizados*) will be cancelled forthwith and may not be reissued or resold.

#### ***Purchase of Instruments***

- 5.11 The Issuer and any of its respective subsidiaries or any third party designated by it, may purchase Instruments in the open market or otherwise and at any price *provided that* all unmatured Coupons appertaining thereto are purchased therewith.

In the case of Subordinated Instruments, Senior Non Preferred Instruments and Ordinary Senior Instruments eligible to comply with TLAC/MREL Requirements, the purchase of the relevant Instruments by the Issuer or any of its subsidiaries shall take place in accordance with Applicable Banking Regulations in force at the relevant time and will be subject to the prior consent of the Regulator and/or the Relevant Resolution Authority, if and as required.

*Under the current Applicable Banking Regulations an institution requires the prior permission of the Regulator (Article 77(b) of the CRR) to effect the repurchase of tier 2 instruments, and these may not be repurchased before five years after the date of issuance (Article 63(j) of the CRR).*

**Further Provisions applicable to Redemption Amount and Instalment Amounts**

- 5.12 The provisions of Condition 4E.04 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent.
- 5.13 References herein to “**Redemption Amount**” shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Capital Disqualification Event), Early Redemption Amount (TLAC/MREL Disqualification Event), Early Redemption Amount (Zero Coupon), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms.

**Notices**

- 5.14 Notices of early redemption (whether full or partial) of Instruments shall be given in accordance with Condition 15.

**Notification of Irish Stock Exchange**

- 5.15 The Issuer shall notify the Irish Stock Exchange of any early redemption (whether full or partial) of Instruments.

**6 Events of Default**

**Events of Default for Ordinary Senior Instruments**

- 6.01 Unless otherwise specified in the relevant Final Terms, if, in the case of Ordinary Senior Instruments, any of the following events occurs and is continuing (each an “**Event of Default**” solely in respect of Ordinary Senior Instruments), such Event of Default shall be an acceleration event in relation to the Ordinary Senior Instruments of any Series, namely:
- (i) *Non-payment*: if default is made in the payment of any interest or principal due in respect of the Ordinary Senior Instruments of the relevant Series and such default continues for a period of seven Business Days; or
  - (ii) *Breach of other obligations*: if the Issuer fails to perform or observe any of its other obligations under or in respect of the Ordinary Senior Instruments of the relevant Series, or the Issue and Paying Agency Agreement and (except in any case where such failure is incapable of remedy when no such continuation as is hereinafter mentioned will be required) the failure continues for a period of 30 days following the service by the relevant Commissioner (as defined in Condition 14 below) on the Issuer of a notice requiring the same to be remedied; or
  - (iii) *Winding up*: if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in any such case for the purpose of reconstruction or a merger or amalgamation which has been previously approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments or a merger with another financial institution in this case even without being approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments, *provided that* any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer at the time of such merger); or
  - (iv) *Cessation of business*: if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of a reorganisation (except in any such case for the purpose of a reconstruction or a merger or amalgamation which has been previously approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments or a merger with another financial institution in this case even without being approved by a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments, *provided that* any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer, as the case may be, at the time of such merger), or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class

thereof) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- (v) *Insolvency proceedings*: if (a) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or in relation to the whole or a part of its undertaking or assets, or an encumbrancer takes possession of the whole or a part of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of its undertaking or assets and (b) in any case is not discharged within 14 days; or
- (vi) *Arrangements with creditors*: if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors).

- 6.02 If any Event of Default shall occur in relation to any Series of Ordinary Senior Instruments, the relevant Commissioner, acting upon a resolution of the relevant Syndicate of Holders of the Ordinary Senior Instruments of the relevant Series, in respect of all the Ordinary Senior Instruments of a relevant Series, or any Holder of a Senior Instrument in respect of such Senior Instrument and provided that such Holder does not contravene the resolution of the relevant Syndicate (if any) may, by written notice to the Issuer, at the specified office of the Issue and Paying Agent, declare that such Senior Instrument or Instruments and all interest then accrued on such Senior Instrument or Instruments shall (when permitted by applicable Spanish law) be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the **“Early Termination Amount”**) (which shall be its principal amount or such other Early Termination Amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Ordinary Senior Instruments under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with interest accrued to (but excluding) the date of redemption without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Senior Instrument or Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Ordinary Senior Instruments of the relevant Series shall have been cured.

***No Events of Default for Subordinated Instruments, Senior Non Preferred Instruments and certain Ordinary Senior Instruments***

- 6.03 Save as provided below, there are no events of default under the Subordinated Instruments, the Senior Non Preferred Instruments and, to the extent so specified in the relevant Final Terms, the Ordinary Senior Instruments, which could lead to an acceleration of the relevant Subordinated Instruments, Senior Non Preferred Instruments or Ordinary Senior Instruments.

However, if an order is made by any competent court commencing insolvency proceedings against the Issuer or if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in any such case for the purpose of a reconstruction, a merger or an amalgamation which has been previously approved by a resolution of the Syndicate of Holders of Instruments or a merger with another financial institution, whether or not approved by the Syndicate of Holders of Instruments, provided that any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer at the time of such merger) and such order is continuing, then any Instrument may, unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Issue and Paying Agent, be declared immediately due and payable, whereupon the principal amount of such Instruments together with any accrued and unpaid interest thereon to the date of payment shall become immediately due and payable without further action or formality.

Notwithstanding the above, if default is made in the payment of any interest or principal due in respect of the Instruments and such default continues for a period of seven days then, (i) the Commissioner, acting upon a resolution of the Syndicate of Holders of Instruments, in respect of all Senior Non

Preferred Instruments or Ordinary Senior Instruments, as the case may be, or (ii) unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments (which resolution shall be binding on all Holders), any Holder in respect of the Senior Non Preferred Instruments or Ordinary Senior Instruments, as the case may be, held by such Holder, may institute proceedings for the winding up or dissolution of the Issuer but may take no further or other action in respect of such default.

In addition, (i) the Commissioner, acting upon a resolution of the Syndicate of Holders of Instruments, or (ii) unless there has been a resolution to the contrary by the Syndicate of Holders of Instruments (which resolution shall be binding on all Holders), any Holder in respect of the Instruments held by such Holder, may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Instruments, provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Instruments sooner than the same would otherwise have been payable by it or any damages.

Neither a cancellation of the Instruments, a reduction, in part or in full, of the principal amount of the Instruments or any accrued and unpaid interest on the Instruments, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the Bail-in Power by the Relevant Resolution Authority with respect to the Issuer, nor the exercise of any Bail-in Power by the Relevant Resolution Authority with respect to the Instruments will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Holders to any remedies (including equitable remedies), which are hereby expressly waived.

## **7 Waiver of Set-off**

If this Condition 7 is specified in the relevant Final Terms as being applicable to the Instruments, no Holder may at any time exercise or claim any Waived Set-Off Rights against any right, claim, or liability the Issuer has or may have or acquire against such Holder, directly or indirectly, howsoever arising (and, for the avoidance of doubt, including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any sort, whether or not relating to such Instrument) and each Holder shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Instruments is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, nothing in this Condition is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Instrument but for this Condition.

For the purposes of these Terms and Conditions:

**“Waived Set-Off Rights”** means any and all rights of or claims of any Holder for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Instrument.

## **8 Substitution and Variation**

If this Condition 8 is specified in the relevant Final Terms as being applicable to the Instruments, and a Capital Disqualification Event, a TLAC/MREL Disqualification Event or a circumstance giving rise to the right of the Issuer to redeem the Instruments for taxation reasons under Condition 5.02 occurs and is continuing, the Issuer may substitute all (but not some only) of the Instruments (as the case may be) or modify the terms of all (but not some only) of the Instruments, without any requirement for the consent or approval of the Holders, so that they are substituted for, or varied to, become, or remain, Qualifying Instruments, subject to having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 15, the Registrar and the Issue and Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or, as applicable, variation), and subject to obtaining the prior consent of the Regulator and/or the Relevant Resolution Authority if and as required therefor under Applicable Banking Regulations and in accordance with Applicable Banking Regulations in force at the relevant time.

Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the Instruments. Such substitution or variation will be effected without any cost or charge to the Holders.

Holders shall, by virtue of subscribing and/or purchasing and holding any Instruments, be deemed to accept the substitution or variation of the terms of such Instruments and to grant to the Issuer full power and authority to take any action and/or to execute and deliver any document in the name and/or on behalf of the Holders which is necessary or convenient to complete the substitution or variation of the terms of the Instruments.

In these Terms and Conditions:

**“Qualifying Instruments”** means, at any time, any securities denominated in the Specified Currency and issued directly by the Issuer, other than in respect of the effectiveness and enforceability of Condition 21, that have terms not otherwise materially less favourable to the Holders than the terms of the Instruments provided that the Issuer shall have delivered a certificate signed by two Authorised Signatories to that effect to the Issue and Paying Agent and the Commissioner not less than five Business Days prior to (x) in the case of a substitution of the Instruments pursuant to this Condition 8, the issue date of the relevant securities or (y) in the case of a variation of the Instruments pursuant to this Condition 8, the date such variation becomes effective, provided that such securities shall:

- (i) (a) in the case of Instruments eligible to comply with TLAC/MREL Requirements, if the TLAC/MREL Requirement Date has occurred, contain terms which comply with the then current requirements for TLAC/MREL-Eligible Instruments as embodied in the Applicable TLAC/MREL Regulations, and (b) in the case of Tier 2 Subordinated Instruments, contain terms which comply with the then current requirements for their inclusion in the Tier 2 Capital of the Issuer; and
- (ii) carry the same rate of interest as the Instruments prior to the relevant substitution or variation pursuant to this Condition 8; and
- (iii) have the same denomination and aggregate outstanding principal amount as the Instruments prior to the relevant substitution or variation pursuant to this Condition 8; and
- (iv) have the same date of maturity and the same dates for payment of interest as the Instruments prior to the relevant substitution or variation pursuant to this Condition 8; and
- (v) have at least the same ranking as set out in Condition 3; and
- (vi) not, immediately following such substitution or variation, be subject to a Capital Disqualification Event, a TLAC/MREL Disqualification Event and/or an early redemption right for taxation reasons according to Condition 5.02, as applicable; and
- (vii) be listed or admitted to trading on any stock exchange as selected by the Issuer, if the Instruments were listed or admitted to trading on a stock exchange immediately prior to the relevant substitution or variation pursuant to this Condition 8.

## **9 Taxation**

- 9.01 All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments, the Receipts and the Coupons by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts (in the case of Tier 2 Subordinated Instruments and/or Coupons of Tier 2 Subordinated Instruments, in respect of the payment of any interest in respect of such Tier 2 Subordinated Instrument and/or such Coupons of Tier 2 Subordinated Instruments only (but not in respect of the payment of any principal in respect of such Tier 2 Subordinated Instruments)) as will result in receipt by the Holder of any Instrument or Coupon of such amounts as would have been received by them had no such withholding or deduction been required.
- 9.02 The Issuer shall not be required to pay any additional amounts as referred to in Condition 9.01 in relation to any payment in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, a Holder of an Instrument or Coupon who is liable for such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of such Instrument or Coupon; or
- (ii) to, or to a third party on behalf of, a Holder in respect of whose Instruments the Issuer does not receive such information as may be required in order to comply with the applicable Spanish tax reporting obligations; or
- (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
- (iv) to, or to a third party on behalf of, individuals resident for tax purposes in the Relevant Jurisdiction; or
- (v) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Instruments do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

In addition, additional amounts will not be payable with respect to any taxes that are imposed in respect of any combination of the items set forth above.

Notwithstanding any other provision of these Terms and Conditions, any amounts to be paid on the Instruments by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

## 10 Payments

### 10A Payments — Bearer Instruments

10A.01 This Condition 10A is applicable to Bearer Instruments.

10A.02 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of a partial redemption which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents

10A.03 Payment of amounts in respect of interest on Bearer Instruments will be made:

- (i) in the case of Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Instruments at the specified office of any of the Paying Agents outside (unless Condition 10A.04 applies) the United States; and
- (ii) in the case of Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 10A.04 applies) the United States.

10A.04 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 10A.03 will not be made at the specified office of any Paying Agent in the United States (as defined in the Code and U.S. Treasury Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law, without involving, in the opinion of the

Issuer, any adverse tax, legal or regulatory consequence to the Issuer. If parts (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

10A.05 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day (as defined in Condition 10C.03) and a local banking day (as defined in Condition 10C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day (or as otherwise specified in the relevant Final Terms) and, thereafter will be entitled to receive payment on a Relevant Financial Centre Day and a local banking day and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

10A.06 Each Instrument initially delivered with Coupons attached thereto should be presented and, save in the case of partial payment which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment, surrendered for final redemption together with all unmatured Coupons and Talons appertaining thereto, failing which:

- (i) in the case of Instruments which bear interest at a fixed rate or rates (other than Reset Instruments), the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the redemption amount paid bears to the total redemption amount due excluding, for this purpose, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such final redemption amount;
- (ii) in the case of Instruments which bear interest at, or at a margin above or below, a floating rate or which are Reset Instruments, all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
- (iii) in the case of Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 10A.06 notwithstanding, if any Instruments which bear interest at a fixed rate or rates should be issued with a maturity date and a fixed rate or fixed rates such that, on the presentation for payment of any such Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the amount otherwise due for payment, then, upon the due date for redemption of any such Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to an Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

10A.07 In relation to Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 10A.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of this Condition 10. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.

10A.08 For the purposes of these Terms and Conditions, the “United States” means the United States of America (including the States thereof and the District of Columbia) and its possessions (including

Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

#### 10B. Payments — Registered Instruments

10B.01 This Condition 10B is applicable to Registered Instruments.

10B.02 Payment of amounts (whether principal, a redemption amount or otherwise and including accrued interest) due in respect of Registered Instruments on the final redemption of Registered Instruments will be made against presentation and, save in the case of partial payment of the amount due upon final redemption by reason of insufficiency of funds, surrender of the relevant Registered Instruments at the specified office of the Registrar. If the due date for payment of the final redemption amount of any Registered Instrument is not both a Relevant Financial Centre Day (as defined in Condition 10C.03) and a local banking day (as defined in Condition 10C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and, thereafter will be entitled to receive payment by cheque on any local banking day, and, will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

10B.03 Payment of amounts (whether principal, a redemption amount, interest or otherwise) due (other than in respect of the final redemption of Registered Instruments) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at close of business (local time in the place of the specified office of the Registrar) on the business day (as defined in Condition 2.04) before the due date for such payment for the Instruments (the “**Record Date**”).

10B.04 Notwithstanding the provisions of Condition 10C.02, payment of amounts (whether principal, a redemption amount, interest or otherwise) due (other than in respect of final redemption of Registered Instruments) in respect of Registered Instruments will be made by cheque and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the business day (as defined in Condition 2.04) not later than the relevant date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 4E.06.

#### 10C Payments — General Provisions

10C.01 Save as otherwise specified herein, this Condition 10C is applicable in relation to both Bearer Instruments and Registered Instruments.

10C.02 Payments of amounts due (whether principal, a redemption amount, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due by (a) cheque or (b) at the option of the payee, transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 10, be subject in all cases to any applicable fiscal or other laws and regulations.

10C.03 For the purposes of these Terms and Conditions, save as otherwise defined, the following terms shall have the meaning set out below:

“**Authorised Signatory**” means any director of the Issuer (or any signatory authorised to act on its behalf);

**“Business Day”** means a day:

- in relation to Instruments denominated or payable in euro which is a TARGET Business Day; and
- in relation to Instruments payable in any other currency, on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant currency; and, in either case,
- on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the Relevant Financial Centre;

**“Calculation Amount”** has the meaning given in the relevant Final Terms;

**“CMS-Linked Instruments”** means Instruments the payment of interest of which is linked to a constant maturity swap rate as specified in the relevant Final Terms.

**“Instalment Amount”** has the meaning given in the relevant Final Terms;

**“Instalment Dates”** has the meaning given in the relevant Final Terms;

**“Interest Determination Date”** means, with respect to an interest rate and Interest Period, the date specified in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Period if the Relevant Currency is sterling (ii) or the day falling two London Banking Days prior to the first day of such Interest Period if the Relevant Currency is not sterling, or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Relevant Currency is Euro;

**“local banking day”** means a day (other than a Saturday and Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon;

**“London Banking Day”** means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

**“Margin”** has the meaning given in the relevant Final Terms;

**“Maturity Date”** has the meaning given in the relevant Final Terms;

**“Maximum Rate of Interest”** has the meaning given in the relevant Final Terms;

**“Minimum Rate of Interest”** has the meaning given in the relevant Final Terms;

**“person”** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**“principal amount”** means the Aggregate Principal Amount which has the meaning given in the relevant Final Terms;

**“Reference Banks”** means four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate. The Reference Banks shall not include the Calculation Agent;

**“Reference Rate”** means one of (i) the London inter-bank offered rate (“**LIBOR**”) and (ii) the Euro Interbank Offered Rate (“**EURIBOR**”) or (iii) such other rate, in each case, as specified in the relevant Final Terms;

**“Relevant Financial Centre”** means such financial centre or centres as may be specified in the relevant Final Terms. If no financial centre or centres is specified in the relevant Final Terms, this term will have the meaning given to “**Financial Centre**” in Section 1.5 in the ISDA Definitions in respect of the Relevant Currency;

**“Relevant Financial Centre Day”** means, in the case of any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre (which in the case of Australian dollars shall be Melbourne and which in the case of New Zealand dollars shall be Wellington) and in any other place specified in the relevant Final Terms and in the case of payment in euro, a day which is a TARGET Business Day;

“**Relevant Currency**” means the currency specified as Specified Currency in the relevant Final Terms or, if none is specified, the currency in which the Instruments are denominated;

“**Relevant Jurisdiction**” means the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Instruments;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” has the meaning given in the relevant Final Terms;

“**Specified Denomination**” means, in relation to any Instruments, the denomination of such Instruments specified as such in the relevant Final Terms and expressed as a currency amount;

“**Specified Percentage**” has the meaning given in the relevant Final Terms;

“**TARGET Business Day**” means any day on which the TARGET2 System, or any successor thereto, is open for the settlement of payments in euro; and

“**TARGET2 System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) payment system which utilises a single shared platform and which was launched on 19 November 2007.

10C.04 For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders of Instruments and Coupons, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 15.

10C.05 Unless the context otherwise requires, any reference in these Terms and Conditions to “**principal**” shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and “**interest**” shall include all amounts payable pursuant to Condition 4 and any other amounts in the nature of interest payable to these Terms and Conditions.

## 11 Prescription

11.01 Claims against the Issuer for payment of principal and interest in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date for payment thereof.

11.02 In relation to Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 10A.06 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 11 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

## 12 The Paying Agents, the Registrars and the Calculation Agent

12.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified in these Terms and Conditions. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent) or the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or another Calculation Agent provided

that it will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city, (iv) so long as the Instruments are listed on any stock exchange and/or quotation system, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in such place as may be required by the rules of such listing authority, stock exchange and/or quotation system, (v) in the circumstances described in Condition 10A.04, a Paying Agent with a specified office in New York City, and (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments with a specified office located in such place (if any) as may be required by the Terms and Conditions. The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Paying Agents, the Registrar or the Calculation Agent will be given promptly by the Issuer to the Holders of the Instruments in accordance with Condition 15.

- 12.02 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

### 13 Replacement of Instruments

If any Instrument or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent as may be specified in the relevant Final Terms (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments), subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments are listed and/or quoted, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Issue and Paying Agent, the relevant Paying Agent or, as the case may be, the Registrar may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered therefor.

### 14 Syndicate of Holders of the Instruments and Modification

The Holders of the Instruments of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders of the Instruments (the “**Regulations**”). The Regulations shall contain the rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer and shall be attached to the relevant Public Deed of Issuance. A set of pro forma Regulations is included in the Issue and Paying Agency Agreement.

A Commissioner will be appointed for each Syndicate.

Provisions for meetings of the Syndicate of Holders of the Instruments will be contained in the Regulations and the Issue and Paying Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Holders of Instruments.

For the purposes of these Terms and Conditions,

“**Commissioner**” means the trustee (*comisario*) as this term is defined under the Spanish Corporations Law (*Ley de Sociedades de Capital*) of each Syndicate of Holders of the Instruments; and

“**Syndicate**” means the syndicate (*sindicato*) as this term is described under the Spanish Corporations Law (*Ley de Sociedades de Capital*).

## 15 Notices

### ***To Holders of Bearer Instruments***

15.01 Notices to Holders of Bearer Instruments, will be valid if published in a leading English language daily newspaper of general circulation in London (which is expected to be the Financial Times) or on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) (so long as such Instruments are listed on the Irish Stock Exchange and the rules of that exchange so require) or, in either case if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe.

Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the first date on which publication is made). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

### ***To Holders of Registered Instruments***

15.02 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth day after the date of such mailing or, if posted from another country, on the fifth such day. With respect to Registered Instruments listed on the Irish Stock Exchange, any notices to Holders must also be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) (so long as such Instruments are listed on the Irish Stock Exchange and the rules of that exchange so require) and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

### ***Notice of a General Meeting of the Syndicate of Holders***

15.03 Notice of a General Meeting of Holders of Instruments of the Relevant Series must be given in accordance with the Regulations.

### ***To Commissioners***

15.04 Copies of any notice given to any Holders of the Instruments will be also given to the Commissioner of the Syndicate of Holders of the Instruments of the relevant Series.

### ***Notices by any Holder of Instruments***

15.05 Notices to be given by any Holder of Instruments shall be in writing and given by lodging the same, together with the relative Instrument, with the Issue and Paying Agent.

## 16 Further Issues

The Issuer may, from time to time without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series.

## 17 Currency Indemnity

The currency in which the Instruments are denominated or, if different, payable, as specified in the relevant Final Terms (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge by the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such

purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

## **18 Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

## **19 Law and Jurisdiction**

### ***Governing Law***

19.01 Save as described below, the Instruments and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Conditions 3 and 14 shall be governed by, and shall be construed in accordance with, Spanish law.

### ***Jurisdiction***

19.02 The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Instruments and accordingly any legal action or proceedings arising out of or in connection with any Instruments ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

### ***Service of Process***

19.03 The Issuer irrevocably appoints Banco Santander, S.A., London Branch at 2 Triton Square, Regent's Place, London, NW1 3AN as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Holders of such appointment in accordance with Condition 15. Nothing shall affect the right to serve process in any manner permitted by law.

## **20 Rights of Third Parties**

No person shall have any right to enforce any term or condition of any Series of Instruments under the Contracts (Rights of Third Parties) Act 1999.

## **21 Bail-in**

### ***Acknowledgement***

21.01 Notwithstanding any other term of the Instruments or any other agreement, arrangement or understanding between the Issuer and the Holders, by its subscription and/or purchase and holding of the Instruments, each Holder (which for the purposes of this Condition 21 includes each holder of a beneficial interest in the Instruments) acknowledges, accepts, consents and agrees:

- (i) to be bound by the effect of the exercise of the Bail-in Power by the Relevant Resolution Authority, which may include and result in any of the following, or some combination thereof:
  - the reduction of all, or a portion, of the Amounts Due on a permanent basis;
  - the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Instruments, in which case the Holder agrees to accept in lieu of its rights under the Instruments any such shares, other securities or other obligations of the Issuer or another person;
  - the cancellation of the Instruments or Amounts Due;
  - the amendment or alteration of the maturity of the Instruments or amendment of the Interest Amount payable on the Instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (ii) that the terms of the Instruments are subject to, and may be varied, if necessary, to give effect to, the exercise of the Bail-in Power by the Relevant Resolution Authority.

***Payment of Interest and Other Outstanding Amounts Due***

21.02 No repayment or payment of the Amounts Due will become due and payable or be paid after the exercise of the Bail-in Power by the Relevant Resolution Authority with respect to the Issuer unless, at the time such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations in effect in the Kingdom of Spain and the European Union applicable to the Issuer or other members of the Group.

***Notice to Holders***

21.03 Upon the exercise of any Bail-in Power by the Relevant Resolution Authority with respect to the Instruments, the Issuer will make available a written notice to the Holders as soon as practicable regarding such exercise of the Bail-in Power. The Issuer will also deliver a copy of such notice to the Agents for information purposes.

***Duties of the Agents***

21.04 Upon the exercise of any Bail-in Power by the Relevant Resolution Authority, (a) the Agents shall not be required to take any directions from Holders, and (b) the Issue and Paying Agency Agreement shall impose no duties upon any of the Agents whatsoever, in each case with respect to the exercise of any Bail-in Power by the Relevant Resolution Authority.

***Proration***

21.05 If the Relevant Resolution Authority exercises the Bail-in Power with respect to less than the total Amounts Due, unless any of the Agents is otherwise instructed by the Issuer or the Relevant Resolution Authority, any cancellation, write-off or conversion made in respect of the Instruments pursuant to the Bail-in Power will be made on a pro-rata basis.

***Conditions Exhaustive***

21.06 The matters set forth in this Condition 21 shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and any holder of an Instrument.

For the purposes of the Terms and Conditions:

“**Amounts Due**” means the principal amount, together with any accrued but unpaid interest, and Additional Amounts, if any, due on the Instruments. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Bail-in Power by the Relevant Resolution Authority.”

## SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

### **Bearer Instruments**

Each Tranche of Instruments in bearer form (Bearer Instruments) will initially be in the form of either a temporary global instrument in bearer form (the Temporary Global Instrument), without interest coupons, or a permanent global instrument in bearer form (the Permanent Global Instrument), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Instrument or, as the case may be, Permanent Global Instrument (each a Global Instrument) which is not intended to be issued in new global note (NGN) form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Instruments with a depositary or a Common Depositary for Euroclear and/or Clearstream Luxembourg and/or any other relevant clearing system and each Global Instrument which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Instruments with a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg.

In the case of each Tranche of Bearer Instruments, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) (the “TEFRA C Rules”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “TEFRA D Rules”) are applicable in relation to the Instruments or, if the Instruments do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### ***Temporary Global Instrument exchangeable for Permanent Global Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for a Permanent Global Instrument”, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole or in part, for interests in a Permanent Global Instrument, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Instruments upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Instrument unless exchange for interests in the Permanent Global Instrument is improperly withheld or refused. In addition, interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Instrument is to be exchanged for an interest in a Permanent Global Instrument, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Instrument, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Instrument or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Instrument in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Instrument to or to the order of the Issue and Paying Agent; and
- (ii) receipt by the Issue and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Instruments represented by the Permanent Global Instrument shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership *provided, however*, that in no circumstances shall the principal amount of Instruments represented by the Permanent Global Instrument exceed the initial principal amount of Instruments represented by the Temporary Global Instrument.

If:

- (a) the Permanent Global Instrument has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Instrument has requested exchange of an interest in the Temporary Global Instrument for an interest in a Permanent Global Instrument; or
- (b) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Temporary Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Temporary Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a) or (b) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of this Temporary Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, this Temporary Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

***Permanent Global Instrument exchangeable for Definitive Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Permanent Global Instrument exchangeable for Definitive Instruments”, then the Instruments will initially be in the form of a Permanent Global Instrument which will be exchangeable in whole, but not in part, for Bearer Instruments in definitive form (Definitive Instruments):

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Instrument”, then if either of the following events occurs:
  - (A) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (B) any of the circumstances described in Condition 6 occurs.

Whenever the Permanent Global Instrument is to be exchanged for Definitive Instruments, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Instruments, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of Instruments represented by the Permanent Global Instrument to the bearer of the Permanent Global Instrument against the surrender of the Permanent Global Instrument to or to the order of the Issue and Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Instruments have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Instrument for Definitive Instruments; or
- (b) the Permanent Global Instrument was originally issued in exchange for part only of a Temporary Global Instrument representing the Instruments and such Temporary Global Instrument becomes void in accordance with its terms; or
- (c) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Permanent Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Permanent Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a), (b) or (c) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of the Permanent Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, the Permanent Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

***Temporary Global Instrument exchangeable for Definitive Instruments***

If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for Definitive Instruments” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole but not in part, for Definitive Instruments not earlier than 40 days after the issue date of the relevant Tranche of the Instruments.

If the relevant Final Terms specifies the form of Instruments as being “Temporary Global Instrument exchangeable for Definitive Instruments” and also specifies that the TEFRA D Rules are applicable, then the Instruments will initially be in the form of a Temporary Global Instrument which will be exchangeable, in whole or in part, for Definitive Instruments not earlier than 40 days after the issue date of the relevant Tranche of the Instruments upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Instrument is to be exchanged for Definitive Instruments, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Instruments, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Instrument to the bearer of the Temporary Global Instrument against the surrender of the Temporary Global Instrument to or to the order of the Issue and Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (i) Definitive Instruments have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Instrument for Definitive Instruments; or
- (ii) an Event of Default occurs in accordance with the Terms and Conditions,

the bearer of the Temporary Global Instrument may from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Temporary Global Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (i) or (ii) above has occurred. Such election shall be made by notice to the Issue and Paying Agent and presentation of this Temporary Global Instrument to or to the order of the Issue and Paying Agent. Upon each such notice being given, this Temporary Global Instrument shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

#### ***Terms and Conditions applicable to the Instruments***

The terms and conditions applicable to any Definitive Instrument will be endorsed on that Instrument and will consist of the terms and conditions set out under “Terms and Conditions of the Instruments” below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Instrument will differ from those terms and conditions which would apply to the Instrument were it in definitive form to the extent described under “Summary of Provisions Relating to the Instruments while in Global Form” below.

#### ***Legend concerning United States persons***

Where TEFRA D is specified in the applicable Final Terms, each Bearer Instrument (other than a Temporary Global Instrument) having a maturity of more than one year, Coupon, Receipt and Talon will bear the following legend:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.”

#### ***Registered Instruments***

Each Tranche of Instruments in registered form (Registered Instruments) will be represented by either:

- (i) individual certificates in registered form (Individual Certificates); or
- (ii) one or more global certificates (Global Registered Instruments),

in each case as specified in the relevant Final Terms.

Each Global Registered Instrument will either be: (a) in the case of an Instrument which is not to be held under the NSS, registered in the name of a Common Depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Instrument will be deposited on or about the issue date with the Common Depositary and will be

exchangeable for Individual Certificates in accordance with its terms; or (b) in the case of an Instrument to be held under the NSS, be registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Instrument will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Instruments as being “Individual Certificates”, then the Instruments will at all times be represented by Individual Certificates issued to each Holder in respect of their respective holdings.

***Global Registered Instrument exchangeable for Individual Certificates***

If the relevant Final Terms specifies the form of Instruments as being “Global Registered Instrument exchangeable for Individual Certificates”, then the Instruments will initially be represented by one or more Global Registered Instruments each of which will be exchangeable in whole, but not in part, for Individual Certificates

- (i) if the relevant Final Terms specifies “in the limited circumstances described in the Global Registered Instrument”, then if either of the following events occurs:
  - (A) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (B) if any of the circumstances described in Condition 6 occurs.

Whenever a Global Registered Instrument is to be exchanged for Individual Certificates, each person having an interest in a Global Registered Instrument must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Certificates (including the name and address of each person in which the Instruments represented by the Individual Certificates are to be registered and the principal amount of each such person’s holding).

Whenever a Global Registered Instrument is to be exchanged for Individual Certificates, the Issuer shall procure that Individual Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Instrument within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Instrument to the Registrar of such information as is required to complete and deliver such Individual Certificates against the surrender of the Global Registered Instrument at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Issue and Paying Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled to the Issue and Paying Agency Agreement and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Instrument; or
- (b) an Event of Default occurs in accordance with the Terms and Conditions,

the Holder of the Instruments represented by the Global Registered Instrument may (subject as provided below) from time to time elect that Direct Rights under the provisions of (and as defined in) the Deed of Covenant (a copy of which is available for inspection at the specified office of the Issue and Paying Agent and which the Issuer acknowledges to apply to the Instruments represented by the Global Registered Instrument) shall come into effect in respect of a nominal amount of Instruments in respect of which the relevant event set out in (a) or (b) above has occurred. Such election shall be made by notice to the Issue and Paying Agent by the Holder of the Instruments represented by the Global Registered Instrument specifying the nominal amount of Instruments represented by the Global Registered Instrument in respect of which Direct Rights shall arise under the Deed of Covenant. Upon each such notice being given, the Global Registered Instrument and the corresponding entry in the Register shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

### ***Terms and Conditions applicable to the Instruments***

The terms and conditions applicable to any Individual Certificate will be endorsed on that Individual Certificate and will consist of the terms and conditions set out under “Terms and Conditions of the Instruments” below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Instrument will differ from those terms and conditions which would apply to the Instrument were it in Individual Certificate form to the extent described under “*Summary of Provisions Relating to the Instruments while in Global Form*” below.

## **Summary of Provisions relating to the Instruments while in Global Form**

### ***Clearing System Account Holders***

In relation to any Tranche of Instruments represented by a Global Instrument, references in the Terms and Conditions of the Instruments to “Holder” are references to the bearer of the relevant Global Instrument which, for so long as the Global Instrument is held by a depositary or a Common Depositary, in the case of a CGN, or a Common Safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or Common Depositary or, as the case may be, Common Safekeeper.

In relation to any Tranche of Instruments represented by one or more Global Registered Instruments, references in the Terms and Conditions of the Instruments to “Holder” are references to the person in whose name the relevant Global Registered Instrument is for the time being registered in the Register which, for so long as the Global Registered Instrument is held by or on behalf of a depositary or a Common Depositary or a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or Common Depositary or Common Safekeeper or a nominee for that depositary or Common Depositary or Common Safekeeper. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Instrument or a Global Registered Instrument (each an “**Account Holder**”) must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Account Holder’s share of each payment made by the Issuer to the holder of such Global Instrument or Global Registered Instrument and in relation to all other rights arising under such Global Instrument or Global Registered Instrument. The extent to which, and the manner in which, Account Holders may exercise any rights arising under a Global Instrument or Global Registered Instrument will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Instruments are represented by a Global Instrument or Global Registered Instrument, Account Holders shall have no claim directly against the Issuer in respect of payments due under the Instruments and such obligations of the Issuer will be discharged by payment to the holder of such Global Instrument or Global Registered Instrument.

### ***Conditions applicable to Global Instruments***

Each Global Instrument and Global Registered Instrument will contain provisions which modify the Terms and Conditions of the Instruments as they apply to the Global Instrument or Global Registered Instrument. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Global Instrument or Global Registered Instrument which, according to the Terms and Conditions of the Instruments, require presentation and/or surrender of an Instrument, certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Instrument or Global Registered Instrument to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments. On each occasion on which a payment of principal or interest is made in respect of the (i) Global Instrument, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg and (ii) Global Registered Instrument, the Issuer shall procure that if such Instrument is held under the NSS, the payment is entered into pro rata in the records of Euroclear and Clearstream Luxembourg.

**Payment Business Day:** In the case of a Global Instrument or a Global Registered Instrument, the requirement under the Terms and Conditions for a day of payment to be a local banking day shall not apply.

*Payment Record Date:* Each payment in respect of a Global Registered Instrument will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Registered Instrument is being held is open for business.

*Exercise of put option:* In order to exercise the option contained in Condition 5.07 the bearer of a Permanent Global Instrument or the holder of a Global Registered Instrument must, within the period specified in the Terms and Conditions for the deposit of the relevant Instrument and put notice, give written notice of such exercise to the Issue and Paying Agent specifying the principal amount of Instruments in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 5.05 in relation to some only of the Instruments, the Permanent Global Instrument or Global Registered Instrument may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions and the Instruments to be redeemed will not be selected as provided in the Terms and Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* notwithstanding Condition 16, while all the instruments are represented by a Permanent Global Instrument (or by a Permanent Global Instrument and/or a Temporary Global Instrument) or a Global Registered Instrument and the Permanent Global Instrument is (or the Permanent Global Instrument and/or the Temporary Global Instrument are), or the Global Registered Instrument is deposited with a depositary or a Common Depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a Common Safekeeper, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 16 on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche of Instruments will be used for the general funding purposes of the Group.

## TAXATION

The following is a general description of certain tax considerations relating to the Instruments. It does not purport to be a complete analysis of all tax considerations relating to the Instruments. Prospective purchasers of Instruments should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Instruments and receiving any payments under the Instruments. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### ***The proposed financial transactions tax (FTT)***

On 14 February 2013, the European Commission published the Commission's Proposal for a Directive for an FTT in the Participating Member States. However, Estonia has since stated that it will not participate.

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

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

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

### **Taxation in Spain**

*The following is a general description of certain Spanish tax considerations relating to the Instruments. It does not purport to be a complete analysis of all tax considerations relating to the Instruments. Prospective purchasers of Instruments should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Instruments and receiving any payments under the Instruments. The information contained within this section is based upon the law as in effect on the date of this document and is subject to any change in law that may take effect after such date.*

*In the event of an issue of unlisted Instruments, the applicable tax regime will be set out in the relevant Final Terms.*

### **Introduction**

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

- (a) of general application, First Additional Provision of Law 10/2014 and Royal Decree 1065/2007;
- (b) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax ("IIT"), Law 35/2006 of 28 November, on the IIT and on the Partial Amendment of the Corporate

Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended, and Royal Decree 439/2007, of 30 March, promulgating the IIT Regulations, along with Law 19/1991, of 6 June, on Net Wealth Tax, as amended and Law 29/1987, of 18 December on the Inheritance and Gift Tax;

- (c) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (“CIT”), Law 27/2014, of 27 November, on CIT and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (“NRIT”), Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, as amended, and Royal Decree 1776/2004 of 30 July promulgating the NRIT Regulations, along with Law 19/1991, of 6 June, on Net Wealth Tax as amended and Law 29/1987, of 18 December, on the Inheritance and Gift Tax.

Whatever the nature and residence of the beneficial owner, the acquisition and transfer of Instruments will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

## **Individuals with Tax Residency in Spain**

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

Both interest payments periodically received and income derived from the transfer, redemption or repayments of the Instruments constitute a return on investment obtained from the transfer of a person’s own capital to third parties in accordance with the provisions of Section 25 of the IIT Law, and therefore must be included in the investor’s IIT savings taxable base pursuant to the provisions of the aforementioned law and generally taxed at a flat rate of (i) 19% on the first EUR 6,000; (ii) 21% from EUR 6,001 up to EUR 50,000; and (iii) 23% for any amount in excess of EUR 50,000.

According to Section 44.5 of Royal Decree 1065/2007, and in the opinion of the Issuer, the Issuer will pay interest without withholding to individual Holders who are resident for tax purposes in Spain provided that the information about the Instruments required by Exhibit I is submitted, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation. In addition, income obtained upon transfer, redemption or exchange of the Instruments may also be paid without withholding.

Notwithstanding the above withholding tax at the applicable tax rate of 19% may have to be deducted by other entities (such as depositaries, custodians or financial entities) provided that such entities are resident for tax purposes in Spain or have a permanent establishment in Spain.

Amounts withheld may be credited against the final IIT liability.

### ***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders of the Instruments who are individuals resident in Spain for tax purposes.

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

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (Comunidad Autónoma). Therefore, they should take into account the value of the Instruments which they hold as of 31 December in each year, the applicable rates ranging between 0.2% and 2.5% although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Wealth Tax will apply in 2018 unless such exemption is revoked.

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

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Instruments by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65% and 81.6% depending on relevant factors.

## **Legal Entities with Tax Residency in Spain**

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

Both interest received periodically and income derived from the transfer, redemption or repayment of the Instruments are subject to CIT at the current general tax rate of 25% in accordance with the rules for this tax.

In accordance with Section 44.5 of Royal Decree 1065/2007, and in the opinion of the Issuer, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold tax on income payments to Spanish CIT taxpayers provided that the information about the Instruments required by Exhibit I is submitted, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, in the case of Instruments held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Instruments or income obtained upon the transfer, redemption or repayment of the Instruments, may be subject to withholding tax at the generally applicable rate of 19%, if the Instruments do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 in which case the required withholding will be made by the depositary or custodian.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

### ***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders who are legal persons or entities resident in Spain for tax purposes.

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

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

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

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

## **Individuals and Legal Entities with no tax residency in Spain**

### ***Non-resident Income Tax (Impuesto sobre la renta de No Residentes)***

#### **(a) *With permanent establishment in Spain***

If the Instruments form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Instruments are, generally, the same as those previously set out for Spanish CIT taxpayers. See “*Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*”. Ownership of the Instruments by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

#### **(b) *With no permanent establishment in Spain***

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

In order for the exemption to apply, it is necessary to comply with certain information obligations relating to the Instruments, in the manner detailed under “*Information about the Instruments in Connection with Payments*” as laid down in section 44 of Royal Decree 1065/2007. If these information obligations are not complied within the manner indicated, the Issuer will withhold at the general rate of 19% and the Issuer will not pay additional amounts.

Holders not resident in Spain for tax purposes and entitled to exemption from NRIT but where the Issuer does not timely receive the information about the Instruments in accordance with the procedure

described in detail as set forth in Exhibit I hereto would have to apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish NRIT Law.

### ***Reporting Obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Holders who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Instruments through a permanent establishment in Spain.

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

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject during the tax year 2018 to Net Wealth Tax, the applicable rates ranging between 0.2% and 2.5%.

However, non-Spanish resident individuals will be exempt from Net Wealth Tax in respect of the Instruments which income is exempt from NRIT as described above.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Wealth Tax will apply in 2018 unless such exemption is revoked.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

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

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

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Instruments by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant double tax treaty will apply.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area Member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

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

### **Tax Rules for Instruments not listed on a Multilateral Trading Facility, Regulated Market or any Organised Market in an OECD Country**

#### ***Withholding on Account of IIT, CIT and NRIT***

If the Instruments are not listed on a multilateral trading facility, regulated market or any other organised market in an OECD country on any Payment Date, interest or income from redemption or repayment obtained by Holders in respect of the Instruments will be subject to withholding tax at the general rate of 19%, except in the case of Holders which are: (a) resident in a Member State of the EU other than Spain and obtain the interest income either directly or through a permanent establishment located in another Member State of the EU, provided that such Holders (i) do not obtain the interest income on the Instruments through a permanent establishment in Spain and (ii) are not resident of, or are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991, of 5 July, as amended) or (b) resident for tax purposes of a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to interest payable to any Holder.

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

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

### **Information about the Instruments in Connection with Payments**

As described above, interest and other income paid with respect to the Instruments will not be subject to Spanish withholding tax unless the procedures for delivering to the Issuer the information described in Exhibit I of this Base Prospectus are not complied with.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 (“**Section 44**”).

In accordance with Section 44, the following information with respect to the Instruments must be submitted to the Issuer before the close of business on the Business Day (as defined in the Terms and Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Instruments (each, a “**Payment Date**”) is due.

Such information comprises:

- (a) the identification of the Instruments with respect to which the relevant payment is made;
- (b) the date on which the relevant payment is made;
- (c) the total amount of the relevant payment;
- (d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain.

In particular, the Issue and Paying Agent must certify the information above about the Instruments by means of a certificate in the Spanish language, an English language form of which is attached as Exhibit I of this Base Prospectus.

In light of the above, the Issuer and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer on each Payment Date, such Issuer will withhold tax at the then-applicable rate, generally 19% from any payment in respect of the relevant Instruments. The Issuer will not pay any additional amounts with respect to any such withholding.

If, before the tenth day of the month following the month in which interest is paid, the Issue and Paying Agent provides such information, the Issuer, will reimburse the amounts withheld.

**Prospective Holders of Instruments should note that neither the Issuer nor any of the Dealers accepts any responsibility relating to the procedures established for the collection of information concerning the Instruments. Accordingly, neither the Issuer nor any of the Dealers will be liable for any damage or loss suffered by any Holder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding. See “Risk Factors - Risks in relation to the Instruments - Taxation”.**

*Set out below is Exhibit I. The information set out in Exhibit I has been translated from the original Spanish and has been presented in this document in English only as the language of this Base Prospectus is English. However, only the Spanish language text of Exhibit I is recognised under Spanish law. In the event of any discrepancy between the English language translation of the information in Exhibit I appearing herein, and the Spanish language information appearing in the corresponding certificate provided by the Issue and Paying Agent to the Issuer, the Spanish language information shall prevail.*

## EXHIBIT I

### **Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes**

#### **Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes**

Mr. (*name*), with tax identification number (...)<sup>1</sup>, in the name and on behalf of (*entity*), with tax identification number (....)<sup>1</sup> and address in (...) as (*function - mark as applicable*):

- (a) Management Entity of the Public Debt Market in book entry form.
- (b) Entity that manages the clearing and settlement system of securities resident in a foreign country.
- (c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.
- (d) Paying Agent appointed by the issuer.

Makes the following statement, according to its own records:

**1** In relation to paragraphs 3 and 4 of Article 44:

- 1.1 Identification of the securities.....
- 1.2 Income payment date (or refund if the securities are issued at discount or are segregated)
- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

**2** In relation to paragraph 5 of Article 44.

- 2.1 Identification of the securities.....
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated) .....
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.
- 2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

I declare the above in ..... on the.... of ..... of ....

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<sup>1</sup> In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

## **Irish Taxation**

*The following is a summary of the Irish withholding tax treatment of the Instruments. It is based on the laws and practice of the Revenue Commissioners currently in force in Ireland as at the date of this Base Prospectus and may be subject to change. The summary does not purport to be a comprehensive description of all of the Irish tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments. The summary does not constitute tax or legal advice and the comments below are of a general nature only and it does not discuss all aspects of Irish taxation that may be relevant to any particular Holder of Instruments. Prospective investors in the Instruments should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Instruments and the receipt of payments thereon under any laws applicable to them.*

### **Withholding Tax**

Irish withholding tax applies to certain payments including payments of:

- Irish source yearly interest (yearly interest is interest that is capable of arising for a period in excess of one year);
- Irish source annual payments (annual payments are payments that are capable of being made for a period in excess of one year and are pure income-profit in the hands of the recipient); and
- Distributions (including interest that is treated as a distribution under Irish law) made by companies that are resident in Ireland for the purposes of Irish tax;

at the standard rate of income tax (currently 20 per cent).

On the basis that the Issuer is not resident in Ireland for the purposes of Irish tax, nor does the Issuer operate in Ireland through a branch or agency with which the issue of the Instruments is connected, nor are the Instruments held in Ireland through a depository or otherwise located in Ireland, then to the extent that payments of interest or annual payments arise on the Instruments, such payments should not be regarded as payments having an Irish source for the purposes of Irish taxation. In addition, the mere offering of Instruments to Irish investors will not cause any payments to have an Irish source.

Accordingly, the Issuer or any paying agent acting on behalf of the Issuer should not be obliged to deduct any amount on account of these Irish withholding taxes from payments made in connection with the Instruments.

Separately, for as long as the Instruments are quoted on a stock exchange, a purchaser of the Instruments should not be obliged to deduct any amount on account of Irish tax from a payment made by it in connection with the purchase of the Instruments.

### **Encashment Tax**

Payments on any Instruments paid by a paying agent in Ireland or collected or realised by an agent in Ireland acting on behalf of the beneficial owner of Instruments will be subject to Irish encashment tax at the standard rate of Irish tax (currently 20 per cent), unless it is proved, on a claim made in the required manner to the Revenue Commissioners of Ireland, that the beneficial owner of the Instruments entitled to the interest or distribution is not resident in Ireland for the purposes of Irish tax and such interest or distribution is not deemed, under the provisions of Irish tax legislation, to be income of another person that is resident in Ireland.

## Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Instruments, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Instruments that have a fixed term and are not treated as equity for U.S. federal income tax purposes, issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding on foreign passthru payments unless materially modified after such date. However, if additional instruments (as described under “*Terms and Conditions—Further Issues*”) that are not distinguishable from previously issued Instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Instruments, including the Instruments offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding. Prospective purchasers should consult their own tax advisors regarding how these rules may apply to their investment in the Instruments.

## SUBSCRIPTION AND SALE

Subject to the terms and on the conditions contained in an amended and restated dealership agreement dated 8 March 2018 (the “**Dealership Agreement**”) between the Issuer, the Dealers (the “**Permanent Dealers**”) and the Arrangers, the Instruments will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Instruments directly on its own behalf to Dealers that are not Permanent Dealers but are appointed under the Dealership Agreement. The Instruments may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Instruments may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealership Agreement also provides for Instruments to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Instruments subscribed by it. The Issuer has agreed to reimburse the Arrangers for their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments. The Dealership Agreement entitles the Dealers to terminate any agreement that they make to subscribe Instruments in certain circumstances prior to payment for such Instruments being made to the Issuer.

### **Selling Restrictions**

#### ***European Economic Area***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments.

In relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Instruments to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;
- (c) at any time if the denomination per Instrument being offered amounts to at least €100,000 (or equivalent); or

- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Instruments referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive;

### ***United States of America***

#### ***Regulation S Category 2; TEFRA.***

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealership Agreement, it will not offer, sell or (in the case of Bearer Instruments) deliver the Instruments of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of such Tranche, as determined, and certified to the Issuer and the relevant Dealer, by the Issue and Paying Agent or, in the case of Instruments issued on a syndicated basis, the Lead Manager, within the United States or to or for the account or benefit of U.S. persons, and only in accordance with Rule 903 of Regulation S (the “**distribution compliance period**”). Each Dealer has further agreed that it will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of any identifiable Tranche of Instruments, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering of such Tranche) may violate the registration requirements of the Securities Act.

The Instruments are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Instruments outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Instruments, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in *connection* with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA would not, if the Issuer were not an authorised person, apply to the Issuer; and
- (b) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

## **Spain**

The Instruments may not be offered, sold or distributed, nor may any subsequent resale of Instruments be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Royal Legislative Decree 4/2015, of 23 October, for the approval of the consolidated text of the Securities Market Law*), as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Instruments.

Neither the Instruments nor the Base Prospectus have been registered with the CNMV and therefore the Base Prospectus is not intended for any public offer of the Instruments in Spain.

## **Japan**

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Switzerland**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, the Instruments may not be offered, sold or advertised, directly or indirectly, in, into or from Switzerland, except (i) in case of Instruments that constitute structured products within the meaning of the Swiss Collective Investment Schemes Act to qualified investors as defined in the Swiss Collective Investment Schemes Act and (ii) in case of any other Instruments, to a finite number of hand-picked and individually approached potential investors and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Instruments have been prepared with regard to the standards for prospectuses under Article 652a or 1156 Swiss Code of Obligations (“CO”) or for a simplified prospectus or prospectus under the Swiss Collective Investment Schemes Act, and therefore does not constitute a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the CO or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Instruments may be publicly distributed or otherwise made publicly available in, into or from Switzerland.

## **Italy**

The offering of the Instruments has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation and, accordingly, no Instruments may be offered, sold or delivered, nor may copies of this Base Prospectus (including, without limitation, any supplement to the Base Prospectus) or any other document relating to the Instruments be distributed in the Republic of Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations:

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or delivered, and will not offer, sell or deliver any Instruments or distribute any copy of this Base Prospectus or any other document relating to the Instruments in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (“**Regulation No. 11971**”), as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any such offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus (including, without limitation, any supplement to the Base Prospectus) or any other document relating to the Instruments in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”), all as amended from time to time; and
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

The above restrictions are in addition to those set-out under the heading “*Selling Restrictions – European Economic Area*”.

### **General**

No action has been taken in any jurisdiction that would permit a public offering of any of the Instruments or possession or distribution of the Base Prospectus or any other offering material or any Final Terms in any country or jurisdiction where action for that purpose is required.

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, to the best of its knowledge and belief, it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) after the date hereof in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

## PRO FORMA FINAL TERMS

*Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Instruments has led to the conclusion that: (i) the target market for the Instruments is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Instruments to eligible counterparties and professional clients are appropriate. [*Consider any negative market*] Any person subsequently offering, selling or recommending the Instruments (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

**PRIPs Regulation / PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

[Amounts payable under the Instruments may be calculated by reference to [*specify benchmark (as this term is defined in the Benchmark Regulation)*] which is provided by [*legal name of the benchmark administrator*]. As at the date of this Final Terms, [*legal name of the benchmark administrator*] [appears / does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (“**BMR**”).

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmark Regulation)*] [does not fall within the scope of the BMR / the transitional provisions in Article 51 of the BMR apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]

**Final Terms dated [ ]**

**Banco Santander, S.A.**

**Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Instruments*]  
under the €25,000,000,000 Programme for the Issuance of Debt Instruments**

## PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Terms and Conditions**”) set forth in the Base Prospectus dated 8 March 2018 [and the Supplement[s] to the Base Prospectus dated [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. [This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]]<sup>1</sup> Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 8 March 2018 [as so supplemented]. [The Base Prospectus [and the Supplement[s] to the Base Prospectus] [is] [are] available for viewing at the head office of the Issuer (being Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del

<sup>1</sup> [In the case of listing the Instruments on an unregulated market or unlisted Instruments, this language will be removed.]

Monte, Madrid, Spain), the offices of the Issue and Paying Agent, The Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of each Paying Agent and copies may be obtained from the addresses specified above. The Base Prospectus has been published on the websites on the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the Central Bank of Ireland (<http://www.centralbank.ie>).]]

*(The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date.)*

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Terms and Conditions**”) set forth in the Base Prospectus dated 6 March 2017 and the Supplement to it dated 7 July 2017 which are incorporated by reference in the Base Prospectus dated 8 March 2018. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 8 March 2018 [and the Supplement[s] to the Base Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “**Base Prospectus**”), save in respect of the Terms and Conditions which are extracted from the Base Prospectus dated 6 March 2017 and the Supplement to it dated 7 July 2017. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms, the Base Prospectus dated 6 March 2017, the Base Prospectus [dated 8 March 2018 [and the Supplement(s) to it dated [•]]]. [The Base Prospectus [and the Supplement[s] to the Base Prospectus] [is] [are] available for viewing at the head office of the Issuer (being Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain), the offices of the Issue and Paying Agent, The Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of each Paying Agent and copies may be obtained from the addresses specified above. The Base Prospectus has been published on the websites on the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the Central Bank of Ireland (<http://www.centralbank.ie>).]

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

- |    |                                                                                                                               |                                                                                                                                                                 |
|----|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Issuer:                                                                                                                       | Banco Santander, S.A.                                                                                                                                           |
| 2  | (i) Series Number:                                                                                                            | [ ]                                                                                                                                                             |
|    | [(ii)] Tranche Number:                                                                                                        | [ ]                                                                                                                                                             |
|    | [(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).] |                                                                                                                                                                 |
| 3  | Specified Currency:                                                                                                           | [ ]                                                                                                                                                             |
| 4  | Aggregate Principal Amount:                                                                                                   | [ ]                                                                                                                                                             |
|    | [(i) Series:                                                                                                                  | [ ]                                                                                                                                                             |
|    | (ii) Tranche:                                                                                                                 | [ ]                                                                                                                                                             |
| 5  | Issue Price:                                                                                                                  | [ ] per cent. of the Aggregate Principal Amount [plus accrued interest from [date] (if applicable)] / [ ] per cent per Instrument of [ ] Specified Denomination |
| 6  | Specified Denominations:                                                                                                      | [ ]                                                                                                                                                             |
| 7  | Calculation Amount:                                                                                                           | <i>[the Specified Denomination]</i>                                                                                                                             |
| 8  | (i) Issue Date:                                                                                                               | [ ]                                                                                                                                                             |
|    | (ii) Interest Commencement Date:                                                                                              | [ ] [Issue Date]                                                                                                                                                |
| 9  | Maturity Date:                                                                                                                | <i>[Date or (for Floating Rate — Instruments) Interest Payment Date falling in the relevant month and year]</i>                                                 |
| 10 | Interest Basis:                                                                                                               | [[ ]% Fixed Rate]                                                                                                                                               |

- [Reset Instruments]  
[Floating Rate: [difference between] [LIBOR] [and] [EURIBOR] [and] [*insert Floating Rate Option*] +/- [ ] per cent]  
[Zero Coupon]  
[CMS-Linked: [*constant maturity swap rate appearing on the Relevant Screen Page*] +/- [ ] per cent]
- 11 Redemption/Payment Basis: [Redemption at par]  
[Instalment]
- 12 Put/Call Options: [Not Applicable]  
[Call Option]  
[Put Option]  
[(further particulars specified below)]
- 13 [(i)] Status of the Instruments: [Ordinary Senior Instruments/ Senior Non Preferred Instruments/ Subordinated Instruments-Senior Subordinated Instruments/Subordinated Instruments-Tier 2 Subordinated Instruments]  
[*The Subordinated Instruments-Tier 2 Subordinated Instruments are intended to constitute Tier 2 Instruments of the Issuer*]
- [(ii)] Ordinary Senior Instruments – Events of Default [Conditions 6.01 and 6.02 are [not] applicable]
- [(iii)] [Date [Executive Committee] approval for issuance of Instruments obtained:
- 14 Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 Fixed Rate Instrument Provisions [Applicable/Not Applicable] (*If applicable, Condition 4A of the Terms and Conditions of the Instruments will apply*)  
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [for the [ ] Interest Period][*repeat information if necessary*]  
[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] [in each year] [adjusted in accordance with [*Business Day Convention*]]
- (iii) Fixed Coupon Amount[(s)]: [ ] per [ ] Specified Denomination [for the [ ] Interest Period] [*repeat information if necessary*]
- (iv) Day Count Fraction: [30/360]/[360/360]/[Bond Basis]  
[30E/360]/ [EuroBond Basis]  
[Actual/Actual]/ [Actual/Actual (ISDA)]  
[Actual/365 (Fixed)][  
[Actual/Actual (ICMA)]  
[Actual/360]  
[30E/360 (ISDA)]
- [(v)] Determination Dates: [ ] in each year (*insert regular interest payment dates, ignoring*

*issue date or maturity date in the case of a long or short first or last coupon).*

*(N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*

- |        |                                                                                                                     |                                                                                                                                                                                                                    |
|--------|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (vi)   | Party responsible for calculating the Rate of Interest and/or Interest Amount (if not the [Issue and Paying Agent]) | [ ]                                                                                                                                                                                                                |
| (vii)  | Step Up Provisions:<br>— Step Up Margin:                                                                            | [Applicable/Not Applicable]<br>[ ] per cent.                                                                                                                                                                       |
| 16     | Reset Instrument Provisions                                                                                         | [Applicable/Not Applicable]<br><i>(If applicable, Condition 4B of the Terms and Conditions of the Instruments will apply)</i><br><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i)    | Initial Rate of Interest:                                                                                           | [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]                                                                                                                             |
| (ii)   | First Margin:                                                                                                       | [+/-][ ] per cent. per annum                                                                                                                                                                                       |
| (iii)  | Subsequent Margin:                                                                                                  | [[+/-][ ] per cent. per annum] [Not Applicable]                                                                                                                                                                    |
| (iv)   | Interest Payment Date(s):                                                                                           | [ ] in each year [adjusted in accordance with [Business Day Convention]/[not adjusted].                                                                                                                            |
| (v)    | Fixed Coupon Amount up to (but excluding) the First Reset Date:                                                     | [ ] per [ ] specified denomination [for the [ ] Interest Period]<br><i>[repeat information if necessary]</i>                                                                                                       |
| (vi)   | First Reset Date:                                                                                                   | [ ] [adjusted in accordance with [Business Day Convention]/[not adjusted].                                                                                                                                         |
| (vii)  | Second Reset Date:                                                                                                  | [ ]/[Not Applicable] [adjusted in accordance with [Business Day Convention]/[not adjusted].                                                                                                                        |
| (viii) | Subsequent Reset Date(s):                                                                                           | [ ] [and [ ]] [adjusted in accordance with [Business Day Convention]/[not adjusted].                                                                                                                               |
| (ix)   | Relevant Screen Page:                                                                                               | [ ]                                                                                                                                                                                                                |
| (x)    | Mid-Swap Rate:                                                                                                      | [Single Mid-Swap Rate/Mean Mid-swap Rate]                                                                                                                                                                          |
| (xi)   | Mid-Swap Maturity:                                                                                                  | [ ]                                                                                                                                                                                                                |
| (xii)  | Fixed Leg Swap Duration:                                                                                            | [ ]                                                                                                                                                                                                                |
| (xiii) | Day Count Fraction:                                                                                                 | [30/360]/[360/360]/[Bond Basis]<br>[30E/360]/ [EuroBond Basis]<br>[Actual/Actual]/ [Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[Actual/Actual (ICMA)]<br>[Actual/360]<br>[30E/360 (ISDA)]                    |
| (xiv)  | [Determination Dates:                                                                                               | [ ] in each year <i>(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon).</i>                                                         |
| (xv)   | Reset Business                                                                                                      | [ ]                                                                                                                                                                                                                |

|        |                                                                                                                            |                                                                                                |
|--------|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
|        | Centre:                                                                                                                    |                                                                                                |
| (xvi)  | Party responsible for calculating the Rate of Interest and/or Interest Amount (if not the [Issue and Paying Agent])        |                                                                                                |
| (xvii) | Step Up Provisions:                                                                                                        | [Applicable/Not Applicable]                                                                    |
|        | — Step Up Margin:                                                                                                          | [ ] per cent.                                                                                  |
| 17     | Floating Rate and CMS-Linked Instrument Provisions                                                                         | [Applicable/Not Applicable]                                                                    |
|        |                                                                                                                            | <i>(If applicable, Condition 4C of the Terms and Conditions of the Instruments will apply)</i> |
|        |                                                                                                                            | <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>              |
| (i)    | Interest Payment Date(s):                                                                                                  | [ ] in each year [adjusted in accordance with [Business Day Convention]                        |
| (ii)   | Manner in which the Rate(s) of Interest is/are to be determined:                                                           | [Screen Rate Determination/ISDA Determination]                                                 |
| (iii)  | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Issue and Paying Agent]): | [ ]                                                                                            |
| (iv)   | Margin Plus Rate:                                                                                                          | [Applicable] [Not Applicable]                                                                  |
| (v)    | Specified Percentage Multiplied by Rate:                                                                                   | [Applicable] [Not Applicable]                                                                  |
| (vi)   | Difference in Rates:                                                                                                       | [Applicable] [Not Applicable]                                                                  |
|        | — Rate 1:                                                                                                                  | [Screen Rate Determination] [ISDA Determination]                                               |
|        | — Rate 2:                                                                                                                  | [Screen Rate Determination] [ISDA Determination]                                               |
| (vii)  | Screen Rate Determination                                                                                                  |                                                                                                |
|        | — Reference Rate:                                                                                                          | [LIBOR][EURIBOR][constant maturity swap rate]                                                  |
|        | — Interest Determination Date(s):                                                                                          | [ ]                                                                                            |
|        | — Relevant Screen Page:                                                                                                    | [For example, Reuters LIBOR 01/ EURIBOR 01]                                                    |
|        | — Relevant Time:                                                                                                           | [For example, 11.00 a.m. London time/Brussels time]                                            |
| (viii) | ISDA Determination:                                                                                                        |                                                                                                |
|        | — Floating Rate Option:                                                                                                    | [ ]                                                                                            |
|        | — Designated Maturity:                                                                                                     | [ ]                                                                                            |
|        | — Reset Date:                                                                                                              | [ ]                                                                                            |
| (ix)   | Margin(s):                                                                                                                 | [+/-] [ ] per cent. per annum                                                                  |

- (x) Minimum Rate of Interest: [ ] per cent. per annum
- (xi) Maximum Rate of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction: [30/360]/[360/360]/[Bond Basis]  
[30E/360]/ [EuroBond Basis]  
[Actual/Actual]/ [Actual/Actual (ISDA)]  
[Actual/365 (Fixed)]  
[Actual/Actual (ICMA)]  
[Actual/360]  
[30E/360 (ISDA)]
- (xiii) Specified Percentage: [ ] per cent.
- (xiv) Constant maturity swap rate: [ ]
- (xv) Step Up Provisions: [Applicable/Not Applicable]  
— Step Up Margin: [ ] per cent.
- 18 Zero Coupon Instrument Provisions [Applicable/Not Applicable]  
*(If applicable, Condition 4D of the Terms and Conditions of the Instruments will apply)*  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Amortisation Yield: [ ] per cent per annum
- (ii) Day Count Fraction relating to Early Redemption Amounts: [30/360]/[360/360]/[Bond Basis]  
[30E/360]/ [EuroBond Basis]  
[Actual/Actual]/ [Actual/Actual (ISDA)]  
[Actual/365 (Fixed)]  
[Actual/Actual (ICMA)]  
[Actual/360]  
[30E/360 (ISDA)]

## PROVISIONS RELATING TO REDEMPTION

- 19 Call Option: [Applicable/Not Applicable]  
*(The clearing systems require a minimum of 5 business days' notice if such an option is to be exercised)*
- (i) Early Redemption Amount (Call) of each Instrument: [ ] per Instrument of [ ] specified denomination
- (iii) Notice period [ ] days
- 20 Put Option [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Early Redemption Date(s): [ ]
- (ii) Early Redemption Amount (Put) of each Instrument: [ ] per Instrument of [ ] specified denomination
- (iii) Notice period [ ]

- 21 Maturity Redemption Amount of each Instrument ☐ per Instrument of ☐ Specified Denomination]
- 22 Early Redemption Amount, Early Redemption Amount (Tax), Early Redemption Amount (Capital Disqualification Event) and Early Redemption Amount (TLAC/MREL Disqualification Event)  
 TLAC/MREL Disqualification Event ☐ [Applicable/Not Applicable]  
 Early Redemption Amount(s) ☐ of each Instrument payable on redemption for (1) taxation reasons, [(2) on a Capital Disqualification Event], [(3) on a TLAC/MREL Disqualification Event] or (4) on event of default:

#### GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

- 23 Form of Instruments: Bearer Instruments:  
 [Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on ☐ days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
 [Temporary Global Instrument exchangeable for Definitive Instruments]  
 [Permanent Global Instrument exchangeable for Definitive Instruments on ☐ days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
 Registered Instruments:  
 [Global Registered Instrument exchangeable for Individual Certificates in the limited circumstances specified in the Global Registered Instrument]  
 [Global Registered Instrument (US\$/€[ ☐ nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]  
 [Individual Certificates]
- 24 New Global Note: ☐ [Yes] ☐ [No]
- 25 Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): ☐ [Yes] ☐ [No] ☐ [ ]
- 26 Relevant Financial Centre: ☐ [ ]
- 27 Relevant Financial Centre Day: ☐ [ ]
- 28 Amount of each instalment (Instalment Amount), date on which each payment is to be made (Instalment Date): ☐ [Not Applicable] ☐ [ ]
- 29 Commissioner: ☐ [ ]
- 30 Waiver of Set-off: ☐ [Applicable/Not Applicable]

31 Substitution and Variation: [Applicable/Not Applicable]

#### **DISTRIBUTION**

32 If syndicated, names of Managers: [Not Applicable] [ ]

33 If non-syndicated, name of Dealer/Manager: [Not Applicable] / [ ]

34 Stabilisation Manager(s): [Not Applicable] [ ]

35 US Selling Restrictions: [Reg. S Compliance Category 2; TEFRA C/TEFRA D/ TEFRA not applicable]  
(Categories of potential investors to which the Instruments are offered)

#### **THIRD PARTY INFORMATION**

[[*Relevant third party information*] has been extracted from [*source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

#### **CONFIRMED**

**BANCO SANTANDER, S.A.**

By:

---

*Authorised Signatory*

Date

## PART B — OTHER INFORMATION

### 1 LISTING AND ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the Instruments to be listed on [the Official List of the Irish Stock Exchange]/[any other regulated market]<sup>2</sup>/[any unregulated market]/[any other listing authority] [any other stock exchange] [any other quotation system] and application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [the Regulated Market of the Irish Stock Exchange] [any other regulated market] [any other unregulated market] [any other listing authority] [any other stock exchange] [any other quotation system] with effect from [ ].]<sup>3</sup> [Not Applicable.]

Estimate of total expenses related to admissions to trading: [●]

(Where documenting a fungible issue, indicate that the original Instruments are already admitted to trading.)

### 2 RATINGS

The Instruments to be issued have been rated:

[S&P:[ ]]

[Moody's: [ ]]

[Fitch: [ ]]

[Other]: [ ]]

[These credit ratings have been issued by Standard & Poor's Credit Market Services Europe Limited, Moody's Investor Services España, S.A.] [and Fitch Ratings España, S.A.U.] [other].

Each of [Standard & Poor's Credit Market Services Europe Limited], [Moody's Investor Services España, S.A.] [,][and] [Fitch Ratings España, S.A.U.] [and] [Specify Other] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such each of [Standard & Poor's Credit Market Services Europe Limited], [Moody's Investor Services España, S.A.] [,][and] [Fitch Ratings España, S.A.U.] [and] [Specify Other] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

[A list of rating agencies registered under the CRA Regulation can be found at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>.]

[Insert the legal name of the relevant credit rating agency entity] is not established [in the European Union] and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). [Insert the legal name of relevant credit rating agency entity] is therefore not included in the list of credit rating agencies published by the European Securities and Market Authority on its website in accordance with such Regulation].

(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

### 3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

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

[Save as discussed in paragraph 5.4 (Placing and Underwriting) of the Base Prospectus for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Instruments has

<sup>2</sup> [In the case of listing the Instruments on an unregulated market, this language and any references to the Prospectus Directive will be removed.]

<sup>3</sup> [In the case of unlisted Instruments, this language and any references to the Prospectus Directive will be removed.]

an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

#### 4 [Fixed Rate Instruments only— YIELD

Indication of yield: [ ]

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]]

#### 5 OPERATIONAL INFORMATION

ISIN: [ ]

Common Code: [ ]

CUSIP number: [ ]

CFI: [[●]/Not Applicable]

FISN: [[●]/Not Applicable]

*(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be Not Applicable)*

WKN: [ ] [Not applicable]

Any other clearing system other than [Clearstream Banking AG] [ ]

Euroclear and Clearstream Banking, [Not applicable]

*société anonyme* and the relevant identification numbers:

Delivery: Delivery [against/free of] payment

Names and addresses of additional [ ]

Paying Agent(s) (if any):

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)]*[include this text for registered Instruments]* and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]if “yes” selected and the Instruments are deposited with an ICSD, the Instruments must be issued in NGN form]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Instruments are capable of meeting them the Instruments may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)]*[include this text for registered Instruments]*. Note that this does not necessarily mean that the Instruments will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any

time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## GENERAL INFORMATION

### Application for Listing

1. Application has been made to the Irish Stock Exchange (the “**Irish Stock Exchange**”) for the Instruments issued under the Programme to be admitted to the Official List and for such Instruments to be admitted to trading on the Irish Stock Exchange’s regulated market.

### Authorisation

2. The update of the Programme was authorised by means of the resolutions adopted by the executive committee of the Issuer on 5 March 2018.
3. The issue of the Instruments under the Programme has been authorised by means of the resolutions adopted by (i) the general shareholders’ meeting of the Issuer on 7 April 2017, (ii) the board of directors of the Issuer on such same date and (iii) the executive committee of the Issuer on 5 March 2018.
4. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments.

### Legal and Arbitration Proceedings

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

### Significant/Material Change

6. Since 31 December 2017 there has been no material adverse change in the prospects of the Issuer or the Group, nor any significant change in the financial or trading position of the Issuer or the Group.

### Auditors

7. The non-consolidated and consolidated annual financial statements of the Issuer for the years ended 31 December 2017 and 31 December 2016 were audited by PricewaterhouseCoopers Auditores, S.L., the Group’s current independent auditors. PricewaterhouseCoopers Auditores S.L is registered under number S0242 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*) and is a member of the *Instituto de Censores Jurados de Cuentas de España*. The registered office of PricewaterhouseCoopers Auditores S.L is Torre PwC, Paseo de la Castellana 259 B, 28046, Madrid, Spain.

### Documents on Display

8. For so long as any of the Instruments are outstanding, the following documents may be inspected free of charge by physical or electronic means at the registered office of the Issuer, at the offices of each of the Issue and Paying Agent and of the Paying Agents specified at the end of this Base Prospectus:
  - (i) the by-laws (*estatutos*) of the Issuer; and
  - (ii) the information incorporated by reference herein under “*Documents Incorporated by Reference*”.
9. The documents listed in (i) and (ii) above shall be published in electronic form (pdf copies) on the website of Banco Santander ([www.bancosantander.com](http://www.bancosantander.com)). Each of the Final Terms shall be published in electronic form (pdf copies) on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

### Material Contracts

10. No contracts had been entered into that were not in the ordinary course of business of the Issuer and which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer’s ability to meet its obligations to the Holders.

### **Third Party Information**

11. Where information in this Base Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

### **Clearing of the Instruments**

12. The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code, the International Securities Identification Number (ISIN), CUSIP number and/or (where applicable) the identification number for any other relevant clearing system in relation to the Instruments of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
13. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

### **Issue Price and Yield**

14. Instruments may be issued at any price. The issue price of each Tranche of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Instruments or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In case of different Tranches of a Series of Instruments, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Instruments set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

The Issuer does not intend to provide any post-issuance information in relation to the Instruments.

### **Dealers transacting with the Issuer**

15. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Instruments issued under the Programme. Any such short positions could adversely affect future trading prices of Instruments issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## REGISTERED OFFICE OF THE ISSUER

**Banco Santander, S.A.**  
Paseo de Pereda 9-12  
39004 Santander  
Spain

## HEAD OFFICE OF THE ISSUER

**Banco Santander, S.A.**  
Ciudad Grupo Santander  
Avda. de Cantabria s/n  
28660 Boadilla del Monte  
Madrid  
Spain

## ARRANGERS

**Banco Santander, S.A.**  
Gran Vía de Hortaleza 3  
Edificio Pedreña  
28003 Madrid  
Spain

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

## DEALERS

**Banco Santander, S.A.**  
Gran Vía de Hortaleza 3  
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**Citigroup Global Markets Limited**  
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**Commerzbank Aktiengesellschaft**  
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60311 Frankfurt am Main  
Federal Republic of Germany

**Crédit Agricole Corporate and Investment Bank**  
12, Place des Etats-Unis  
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92547 Montrouge Cedex  
France

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**  
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1 Great Winchester Street  
London EC2N 2DB  
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Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
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**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Merrill Lynch International**  
2 King Edward Street  
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**Mizuho International plc**  
Mizuho House  
30 Old Bailey  
London EC4M 7AU  
United Kingdom

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
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London E14 4QA  
United Kingdom

**Natixis**  
30 avenue Pierre Mendès-France  
75013 Paris  
France

**Société Générale**  
29 boulevard Haussmann  
75009 Paris  
France

**UBS Limited**  
5 Broadgate  
London EC2M 2QS  
United Kingdom

**Nomura International plc**  
1 Angel Lane  
London EC4R 3AB  
United Kingdom

**The Royal Bank of Scotland plc (trading as NatWest Markets)**  
250 Bishopsgate  
London EC2M 4AA  
United Kingdom

**UniCredit Bank AG**  
Arabellastrasse 12  
D-81925 Munich  
Germany

**AUDITORS OF THE ISSUER FOR 2014 AND 2015**

**Deloitte, S.L.**  
Plaza Pablo Ruiz Picasso, 1  
Torre Picasso  
28020 Madrid  
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**AUDITORS OF THE ISSUER**  
**PricewaterhouseCoopers Auditores, S.L.**  
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28046 Madrid  
Spain

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**The Bank of New York Mellon, London Branch**  
One Canada Square  
London E14 5AL  
United Kingdom

**REGISTRAR**  
**The Bank of New York Mellon SA/NV, Luxembourg Branch**  
Vertigo Building – Polaris  
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L-2453 Luxembourg

**IRISH LISTING AGENT**  
**A&L Listing Limited**  
International Financial Services Centre  
North Wall Quay  
Dublin 1  
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**LEGAL ADVISERS**

*To the Issuer*  
*As to English law and Spanish Law*  
**Linklaters, S.L.P.**  
Almagro, 40  
28010 Madrid  
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*To the Dealers*  
*As to English law and Spanish law*  
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