BANCO SANTANDER, S.A.

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

€1,500,000,000 1.375 per cent. Second Ranking Senior Notes due 2022
Issue Price: 99.938 per cent

The €1,500,000,000 1.375 per cent. Second Ranking Senior Notes due 2022 (the "**Notes**") are issued by Banco Santander, S.A. ("**Banco Santander**", "**Santander**", the "**Bank**" or the "**Issuer**").

According to the terms and conditions of the Notes (the "**Conditions**"), the Notes constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer. Upon the insolvency (*concurso*) of the Issuer, its payment obligations under the Notes will, save as provided by mandatory applicable legislation in relation to creditors' rights, rank (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities (as defined in the Conditions), (b) *pari passu* with the claims under any Senior Parity Liabilities (as defined in the Conditions), and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer.

The Notes will bear interest on their outstanding principal amount at a fixed rate of 1.375 per cent. per annum from (and including) 9 February 2017 (the "**Issue Date**") to (and excluding) 9 February 2022 (the "**Maturity Date**"). Interest on the Notes is payable annually in arrear on 9 February in each year, starting on (and including) 9 February 2018, as further described in Condition 4. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under Condition 11.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on the Maturity Date. Upon the occurrence of a Tax Event or a TLAC/MREL Disqualification Event (each as defined in the Conditions) the Issuer may, at its option, redeem all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, subject to being permitted by Applicable TLAC/MREL Regulations (as defined in the Conditions) and to obtaining prior Supervisory Permission (as defined in the Conditions) therefor, if required. In the event that a TLAC/MREL Disqualification Event, a Tax Event or an Alignment Event (as defined in the Conditions) occurs and is continuing, the Issuer may substitute all (but not some only) of the Notes or modify the terms of all (but not some only) of the Notes, without any requirement for the consent or approval of the holders of the Notes ("**Holders**" or "**Noteholders**"), so that they become or remain Qualifying Notes (as defined in the Conditions), subject to obtaining Supervisory Permission, if required.

The Notes will be governed by English law, save for Conditions 3 and 13 which shall be governed by Spanish law.

The Notes will be issued in denominations of €100,000. The Notes will be represented by a global certificate (the "**Global Certificate**") which will be deposited with, and registered in the name of a nominee for, a depositary common to Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on the Issue Date. The Global Certificate will be exchangeable for definitive Notes in registered form in the denomination of €100,000 in the limited circumstances set out herein. See "*Summary of Provisions relating to the Notes while in Global Form*" for further detail.

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**CBI**"), as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**") and constitutes a prospectus for the purposes of Article 5 of the Prospectus Directive. The CBI only approves this Prospectus as meeting the requirements imposed under Irish and European Union (the "**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**ISE**") for the Notes to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC ("**MiFID**"). Such approval related only to the Notes which are to be admitted to trading on a regulated market for the purposes of MiFID and/or which are to be offered to the public in any Member State of the European Economic Area.

The Notes have not been and will not be registered under the US Securities Act of 1933 (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States.

The Notes are expected to be rated A- by Fitch Ratings España, S.A.U. ("**Fitch**"), Baa2 by Moody's Investor Services España, S.A. ("**Moody's**") and BBB+ by Standard and Poor's Credit Market Services Europe Limited ("**S&P**"). As of the date of this Prospectus, each of Fitch, Moody's and S&P is established in the EEA and is registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**"). As such each of Fitch, Moody's and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

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.

Investing in the Notes involves certain risks that may affect the abilities of the Issuer to fulfil its obligations under the Notes. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus, before deciding to invest in the Notes.

Structuring Advisors and Joint Lead Managers

Barclays **Santander Global Corporate Banking**

Joint Lead Managers

HSBC **Natixis**

Co-Lead Managers

Bankia **Bankinter**

DZ BANK AG **NORD-LB** **UniCredit Bank**

The date of this Prospectus is 27 January 2017

IMPORTANT NOTICES

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

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

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*"). The Issuer confirms that where information herein has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has confirmed to the Managers named under "*Subscription, Sale and Transfer*" below (the "**Managers**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue and offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; that this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and that all reasonable enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer, the companies whose financial statements are consolidated with those of the Issuer (together, the "**Group**" or "**Santander Group**") or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Managers expressly do not undertake to review the financial condition or affairs of the Issuer or to advise any investor in the Notes of any information coming to their attention.

Neither the Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus. To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Managers that any recipient of this Prospectus should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

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

In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States.

This Prospectus includes forward-looking statements that reflect the Issuer's and/or the Santander Group's intentions, beliefs or current expectations and projections about the Santander Group's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, trends and the markets in which the Santander Group operates or intends to operate. Forward-looking statements involve all matters that are not historical fact. These and other forward-looking statements can be identified by the words "may", "will", "would", "should", "expect", "intend", "estimate", "anticipate", "project", "future", "potential", "believe", "seek", "plan", "aim", "objective", "goal", "strategy", "target", "continue" and similar expressions or their negatives. These forward-looking statements are based on numerous assumptions regarding the Santander Group's present and future business and the environment in which the Santander Group expects to operate in the future. Forward-looking statements may be found in the Directors' reports that accompany the financial statements of the Santander Group incorporated by reference herein.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause the Santander Group's actual results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans or opportunities, as well as those of the markets the Santander Group serves or intends to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements.

Additional factors that could cause the Santander Group's actual results, financial condition, liquidity, performance, prospects, opportunities or achievements or industry results to differ include, but are not limited to, those discussed under "*Risk Factors*". In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur. Additional risks that the Santander Group may currently deem immaterial or that are not presently known to the Santander Group could also cause the forward-looking events discussed in this Prospectus not to occur. These forward-looking statements speak only as of the date on which they are made. Except as otherwise required by applicable securities laws and regulations and by any applicable stock exchange regulations, the Issuer undertakes no obligation to update publicly or revise publicly any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Prospectus. Given the uncertainty inherent in forward-looking statements, prospective investors are cautioned not to place undue reliance on these statements.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, to "**US Dollars**" or "**US$**" are to the lawful currency of the United States of America and to "**pounds sterling**", "**GBP**" or "**£**" are to the lawful currency of the United Kingdom

In connection with the issue of the Notes, Barclays Bank PLC (the "Stabilisation Manager(s)") (or persons acting on behalf of the Stabilisation Manager(s)) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes 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 Notes 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 Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager(s) (or person(s) acting on behalf of the Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The language of the 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.

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RISK FACTORS

An investment in the Notes may involve a high degree of risk. In purchasing the Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. 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 Notes. 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 Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risk associated with the Notes are detailed below. The factors discussed below regarding the risks of acquiring or holding any Notes 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 Notes.

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

Investing in the Notes involves certain risks. Prospective investors should consider, among other things, the following:

Risks in relation to the Issuer and the Group operations

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. 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. Any future 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, or the existing recessionary conditions in Brazil, would likely have a significant adverse impact on the Group's loan portfolio and sovereign debt holdings and, as a result, on its financial condition, cash flows and results of operations. See "*Description of the Issuer and the Santander Group–Business Overview*."

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

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

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

The fall in 2015 and subsequent fluctuation in oil prices may give rise to volatility in the global financial markets and further economic instability in oil-dependent regions, including emerging markets, to which the Group is exposed. In addition, the ability of borrowers in or exposed to the oil sector has been and may be further adversely affected by such price fluctuations.

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

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

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

On 2 October 2016, the UK Prime Minister announced that her government would commence the exit process by the end of March 2017. Once the exit process is triggered, a two-year period of negotiation will begin to determine the new terms of the UK's relationship with the EU, after which period its EU membership will cease. These negotiations are expected to run in parallel to standalone bilateral negotiations with the numerous individual countries and multilateral counterparties with which the UK currently has trading arrangements by virtue of its membership of the EU. The timing of, and process for, such negotiations and the resulting terms of the UK's future economic, trading and legal relationships are uncertain.

While the longer term effects of the UK EU Referendum are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the UK, continental Europe and the global economy, at least in the short to medium term. For instance, the United Kingdom could lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members. A decline in trade could affect the attractiveness of the UK as a global investment centre and, as a result, could have a detrimental impact on UK growth. In particular, London's role as a global financial centre may also decline, particularly if financial institutions shift their operations to continental Europe and the EU financial services passport is not maintained. Among the significant global implications of the UK EU Referendum is the increased uncertainty concerning a potentially more persistent and widespread imposition by central banks of negative interest rate policies. The Bank of Japan, the European Central Bank (the "**ECB**") and several other monetary authorities in Europe have already introduced negative interest rates to address deflationary concerns and to prevent appreciation of their respective currencies.

The UK EU Referendum has also given rise to calls for certain regions within the UK to preserve their place in the EU by separating from the UK, as well as the potential for other EU member states to consider withdrawal. For example, the outcome of the UK EU Referendum was not supported by the majority of voters in Scotland, who voted in favour of remaining in the EU. This has revived the political debate on a second referendum on Scottish independence, creating further uncertainty as to whether such a referendum may be held and as to how the Scottish parliamentary process may impact the negotiations relating to the UK's exit from the EU and its future economic, trading and legal relationship with the EU. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global 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 especially subject to increased market volatility. The major credit rating agencies have downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum. For more information, see the risk factor entitled "*Credit, market and liquidity risk may have an adverse effect on the Group's credit ratings and its cost of funds. Any downgrade in the Group's credit rating would likely increase its cost of funding, require the Group to post additional collateral or take other actions under some of its derivative contracts and adversely affect its interest margins and results of operations*".

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

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

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

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

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

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

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

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

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

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

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

The UK EU Referendum caused significant volatility in the global stock and foreign exchange markets. It has also encouraged anti-EU and populist parties in other member states, raising the potential for other countries to seek to conduct referenda with respect to their continuing membership of the EU. On 4 December 2016, voters in Italy rejected constitutional reform proposals put forward by the Italian Prime Minister by way of referendum (the "**Italian Referendum**"), causing the Prime Minister to announce his resignation and the Euro to fall to a 20-month low against the US dollar, a mid market perception that the result represented a broader rejection of the pro-EU political position of the Prime Minister and support for anti-EU political parties in Italy, which campaigned against the reforms. Following the results of the UK EU Referendum and the Italian Referendum, the risk of further instability in the Eurozone cannot be excluded, particularly in Germany, France and the Netherlands, which are due to hold elections in 2017.

In the past, the 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. These included the creation of the Open Market Transaction facility of the ECB and the decision by Eurozone governments to progress towards the creation of a banking union. In January 2015, the ECB announced an extensive quantitative easing scheme, which has been supplemented since that date and supported by a policy of lowering interest rates. 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 consequences.

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

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

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

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

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

As a financial institution, the Group is subject to extensive regulation, which materially affects its businesses. The statutes, regulations and policies to which the Group is subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which the Group is subject may also change from time to time. Extensive legislation and implementing regulation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group's business, including Spain, the United States, the EU, Latin America and other jurisdictions, and further regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which the Group operates, the Group may face higher compliance costs. Any legislative or regulatory actions and any required changes to the business operations of the Group resulting from such legislation and regulations, as well as any deficiencies in the Group's compliance with such legislation and regulation, could result in significant loss of revenue, limit the ability of the Group to pursue business opportunities in which it might otherwise consider engaging and provide certain products and services, affect the value of assets that it holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional compliance and other costs on the Group or otherwise adversely affect its businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Bank or on its bank subsidiaries and could limit the bank 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 results, financial condition and prospects. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

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

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

Capital requirements, liquidity, funding and structural reform

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

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

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

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

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

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

In addition to the above, the CRR also includes a requirement for institutions to calculate a leverage ratio (“**LR**”), report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their LR in accordance with the methodology laid down in that article. In January 2014, the Basel Committee finalised a definition of how the LR should be prepared and set an indicative benchmark (namely 3% of Tier 1 capital). Such 3% Tier 1 LR has been tested during a monitoring period until 2017 when the Basel Committee will decide on the final calibration. Accordingly, the CRR does not currently contain a requirement for institutions to have a capital requirement based on the LR though prospective investors should note the European Commission's proposal amending the CRR that are mentioned below. The European Commission's proposals contain a binding 3% CET1 LR requirement, which would be added to the CRR and would be applicable (subject to limited exceptions) to all institutions subject to the CRD IV from 1 January 2018. The potential for the introduction of a LR buffer for G-SIIs at some point in the future is also noted in the proposals.

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

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

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

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

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

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

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

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

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

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

EU fiscal and banking union

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

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

The SSM (comprised by both the ECB and the national competent authorities) is designed to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular direct supervision of the 123 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 123 financial institutions (as of 30 September 2015), including the Bank, and indirect supervision of around 3,500 financial institutions and is now one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 national competent authorities that are part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the approval of the Regulation (EU) No 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the SSM Framework Regulation). In addition, this new body represents an extra cost for the financial institutions that funds it through payment of supervisory fees.

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

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

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

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

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

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

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

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

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

United States significant regulation

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

As a large FBO with significant US operations, the Group is subject to enhanced prudential standards that required the Bank to, among other things, establish or designate a US intermediate holding company (an "**IHC**") and to transfer its entire ownership interest in substantially all of its US subsidiaries to such IHC by 1 July 2016. The Bank designated its wholly-owned subsidiary Santander Holdings USA ("**SHUSA**") as its

US IHC, effective 1 July 2016. As a US IHC, SHUSA is subject to an enhanced supervision framework that includes, or will include, enhanced risk-based and leverage capital requirements, liquidity requirements, risk management and governance requirements and stress-testing requirements. Collectively, the enhanced prudential standards impose a significant regulatory burden on SHUSA, in particular with respect to capital and liquidity, which could limit its ability to distribute capital and liquidity to the Bank, thereby negatively affecting the Bank.

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

In October 2015, the US federal bank regulatory agencies adopted final rules for uncleared swaps that will phase in variation margin requirements from 1 September 2016 through 1 March 2017 and initial margin requirements from 1 September 2016 through 1 September 2020, depending on the level of specified derivatives activity of the swap dealer and the relevant counterparty. The final rules of the US federal bank regulatory agencies would generally apply to inter-affiliate transactions. The SEC will in the future adopt regulations establishing margin requirements for uncleared security-based swaps.

On 3 May 2016, the Federal Reserve Board proposed a new rule that would impose contractual requirements on certain qualified financial contracts ("**QFCs**") to which certain covered entities, including the US operations the Bank, are parties. On 19 August 2016, the Office of the Comptroller of the Currency ("**OCC**") proposed a substantially similar rule that would apply to Santander Bank, N.A. and its subsidiaries, followed by a substantially similar rule proposed by the Federal Deposit Insurance Corporation on 26 October 2016. The QFCs covered by the proposals would include derivatives, securities lending transactions and short-term funding transactions such as repurchase agreements. If adopted as proposed, these rules could adversely affect the rights of the Bank's and Santander Bank, N.A.'s creditors or counterparties to these QFCs, which could increase the costs to the Bank of using these contracts.

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

United States capital, liquidity and related requirements and supervisory actions

As a US IHC and bank holding company, SHUSA is subject to the US 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 US bank holding company with $50 billion or more of total consolidated assets, SHUSA is subject to a modified version of the quantitative liquidity coverage ratio requirement. The liquidity coverage ratio is one of the liquidity components of the international Basel III framework. These capital and liquidity requirements significantly affect the amount of capital and liquidity that SHUSA maintains to support its operations, and if SHUSA fails to meet these quantitative requirements, it could face increasingly stringent regulatory consequences, including but not limited to restrictions on its ability to distribute capital to the Bank.

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

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

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

Other supervisory actions and restrictions on US activities

In addition to the foregoing, US 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 US banking regulators may advise the Group's US banking subsidiaries to operate under various restrictions as a prudential matter. Under the US Bank Holding Company Act, the Federal Reserve Board has the authority to disallow the Group and its US 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 US banking subsidiaries could adversely affect the Group's costs and revenues. Moreover, efforts to comply with non-public supervisory actions or restrictions could require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions could have a material adverse effect on the Group's business and results of operations, and the Group may be subject to significant legal restrictions on its ability to publicly disclose these matters or the full details of these actions. In addition to such confidential actions and restrictions, in July 2015, SHUSA became subject to a public enforcement action with the FRB Boston under which SHUSA entered into a written agreement to make enhancements with respect to, among other matters, board oversight of the consolidated organisation, risk management, capital planning and liquidity risk management.

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

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

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

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

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

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

Changes in taxes and other assessments may adversely affect the Group

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

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

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

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, anti-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 recognizing criminal tactics and understanding the level of sophistication of criminal organisations. Where the Group outsources to third parties any of its customer due diligence, customer screening or anti financial crime operations, it remains responsible and accountable for full compliance and any breaches. If the Group is unable to apply the necessary scrutiny and oversight over such third parties, there is a risk of regulatory breach.

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 AML procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group's is (and its relevant counterparties') services as a conduit for money laundering (including illegal cash operations) without the Group (and its relevant counterparties') knowledge.

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, or was even accused to have breached, AML, anti-corruption or sanctions requirements (including being added to "black lists" that would prohibit certain parties from engaging in transactions with the Group). The reputation of the Group could also suffer if it is unable to protect its customers or its business from being used by criminals for illegal or improper purposes.

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

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

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

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

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

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

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

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

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

Any downgrade in the Group's debt credit ratings would likely increase its borrowing costs and require the Group to post additional collateral or take other actions under some of its derivative contracts, and could limit the Group's access to capital markets and adversely affect its commercial business. For example, a ratings downgrade could adversely affect the Group's ability to sell or market certain of its products, engage in certain longer-term and derivatives transactions and retain its customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of the Group's derivative contracts, the Group may be required to maintain a minimum credit rating or terminate such contracts. 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 June 2015, Moody's upgraded Banco Santander's rating from Baa1 to A3 in light of their new banking methodology and in February 2016, they modified the Group's outlook from positive to stable in line with the outlook of the Spanish sovereign debt. In October 2015, Standard & Poor's upgraded Banco Santander's rating from BBB+ to A- following the upgrade of the sovereign credit rating of Spain.

Santander UK plc's ("**Santander UK**") 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 positive outlook by Fitch Ratings.

Banco Santander (Brasil) S.A.'s ("**Santander Brazil**") long-term debt in foreign currency is currently rated BB with a negative outlook by Standard & Poor's Ratings Services, BB+ with negative outlook by Fitch Ratings Ltd. and Ba3 with a negative outlook by Moody's Investors Service. During the course of 2015 and the first quarter of 2016 the three major agencies lowered the rating as a result of the lowering of Brazil's sovereign credit rating.

The Group conducts substantially all of its material derivative activities through Banco Santander and Santander UK.

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

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

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

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

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's business. Non-performing or low credit quality loans have in the past negatively impacted the Group's results of operations and could do so in the future. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in the Group's total loan portfolio, including as a result of loan portfolios that the Group may acquire in the future whose credit quality turns out to be worse than 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 realizable 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. The Group's exposure is concentrated in residential mortgage loans, especially in Spain and the United Kingdom. During late 2007, following an earlier period of increased demand, the housing market began to adjust downward in Spain and the United Kingdom as a result of excess supply (particularly in Spain) and higher interest rates. From 2008 to 2013, as economic growth stalled in Spain and the United Kingdom, persistent housing oversupply, decreased housing demand, rising unemployment, subdued earnings growth, greater pressure on disposable income, a decline in the availability of mortgage finance and the continued effect of global market volatility caused home prices to decline, while mortgage delinquencies and forbearances increased.

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

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

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

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

The Group is subject to counterparty risk in its banking business

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

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

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

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

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

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

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

On the other hand, due to the historically low interest rate environment in the Eurozone, in the UK and in the US 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 US persists in the long run, it may be difficult to increase the Group's net interest income, which will negatively 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 June 2016 UK 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 US dollar could make the Group's Latin American subsidiaries' foreign currency-linked obligations and funding more expensive and have similar consequences for its borrowers in Latin America.

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

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

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

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

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

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

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

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

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

Some of the Group's qualitative tools and metrics for managing risk are based upon its use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. As a result, the Group's losses could be significantly greater than the historical measures indicate. In addition, the Group's quantified 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 follow or continuously refine the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on it.

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

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

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

Like other financial institutions with a large customer base, 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 and other information in the Group's computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's businesses and to its ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented. Although the Group works with its clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against information security risk, the Group routinely exchanges personal, confidential and proprietary information by electronic means, and the Group may be the target of attempted cyber-attacks. If the Group cannot maintain an effective data collection, management and processing system, it may be materially and adversely affected.

The Group takes protective measures and continuously monitors and develops its systems to protect its technology infrastructure and data 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 and reputational harm. There can be no 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 give rise to the disablement of the Group's information technology systems used to service its customers. As attempted attacks continue to evolve in scope and sophistication, the Group may incur significant costs in its attempt 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 subject to cyber-attacks against critical infrastructures of the countries where it operates. 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 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 and could materially and adversely affect the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Further, the Group's customers may issue complaints and seek redress if they consider that they have suffered loss from its products and services, for example, as a result of any alleged miss-selling or incorrect application of the terms and conditions of a particular product. This could in turn subject the Group to risks of potential legal action by its customers and intervention by its regulators. The Group has in the past experienced losses due to claims of miss-selling in the UK, Spain and other jurisdictions and may do so again in the future. 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, 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 2013, 2014 or 2015, 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 management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management, both at its head office and at each of 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 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 be adversely affected.

The Group relies on third parties for important products and services

Third party vendors provide key components of the business infrastructure of the Group such as loan and deposit servicing systems, internet connections and network access. Third parties can be sources of operational 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 its third party vendors. As the Group's interconnectivity with these third parties increases, the Group increasingly faces the risk of operational failure with respect to their systems. The Group may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs and potentially decreasing customer satisfaction. In addition, any problems caused by these third parties, including as a result of their not providing the Group their services for any reason, their performing their services poorly, or employee misconduct, could adversely affect the Group's ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

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

Maintaining a positive reputation is critical to the Group's attracting and maintaining customers, investors and employees. Damage to the Group's reputation can therefore cause significant harm to its business and prospects. Harm to the Group's reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by the Group's employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, compliance failures, unethical behaviour, and the activities of customers and counterparties. Further, negative publicity regarding the Group, whether or not true, may result in harm to its prospects.

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

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

Changes in accounting standards could impact reported earnings

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

The financial statements of the Group 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 negligence or fraud

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the Group in reports filed or submitted under legislation such as the US Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, and recorded, processed, summarised and reported within the time periods specified in the relevant regulatory authority'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 and serious reputational or financial harm. In recent years, a number of financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

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

Issuers of securities in Spain are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in other countries, including the United States. In particular, for regulatory purposes, the Group currently prepares and will continue to prepare and make available to its shareholders statutory financial statements in accordance with IFRS-EU, which differ from US Generally Accepted Accounting Principles in a number of respects. Accordingly, the information about the Group available to a prospective investor 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 Group's directors, officers and assets that are the subject of any claim or litigation may be located outside the jurisdiction of an investor. It may be difficult for investors to effect service of process within their jurisdiction on directors, and officers of the Group residing outside such jurisdiction.

Additionally, investors may experience difficulty in Spain enforcing foreign judgments obtained against the Group and its executive officers and directors, including in any action based on civil liabilities under the US 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 US courts, of liabilities based solely on the US federal securities laws.

Risks in relation to the Notes

The following does not describe all of the risks of an investment in the Notes. Prospective investors should consult their own financial and legal advisers about risks associated with an investment in the Notes and the suitability of investing in the Notes in light of their particular circumstances.

The Notes are complex instruments that may not be suitable for all investors

The Notes are novel and complex financial instruments and may not be a suitable investment for all investors. Each potential investor in the Notes 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 Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus, taking into account that the Notes 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 Notes and the impact the Notes 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 Notes, including where the currency for payments in respect of the Notes is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes, 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 Notes unless it has the knowledge and expertise (either alone or with its financial and professional advisers) to evaluate how the Notes will perform under changing conditions, the resulting effects on the market value of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

The Notes are second ranking senior obligations and are junior to certain obligations

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer according to article 89.3 of Law 22/2003 dated 9 July 2003 (*Ley Concursal*) (the "**Insolvency Law**"). According to the terms and conditions of the Notes, in the case of insolvency (*concurso*) of the Issuer, the Notes would, save as may be provided by mandatory applicable legislation in relation to creditors' rights, rank, (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities (as defined in the Conditions), (b) *pari passu* with the claims under any Senior Parity Liabilities (as defined in the Conditions), and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer according to article 92 of the Insolvency Law.

The Issuer's Senior Higher Priority Liabilities would include, among other liabilities, its deposit obligations (other than the deposits obligations qualifying as preferred liabilities (*créditos con privilegio general*) under

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

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

As a consequence, Holders of the Notes 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 Notes become subject to the application of the bail-in or (ii) insolvent.

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

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

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

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

Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest. The resolution tools and powers are: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem 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 conversion or write down upon bail-in.

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

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 (and any such Tier 2 instruments or subordinated debt would only be written down or converted if the reduction of Additional Tier 1 instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted and, accordingly, senior debt instruments would only be written down or converted if the reduction of subordinated instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted). This sequence is consistent with the one prescribed by the Insolvency Law read in conjunction with Additional Provision 14.2º of Law 11/2015.

Under article 92 of the Insolvency Law read in conjunction with Additional Provision 14.2º of Law 11/2015, the Issuer will meet subordinated claims after payment in full of unsubordinated claims, but before distributions to shareholders, in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated liabilities (firstly, those that do not qualify as Additional Tier 1 or Tier 2; secondly, Tier 2 and thirdly, Additional Tier 1); (iii) interest (including accrued and unpaid interest due on the Notes); (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.

Unlike the capital instruments write-down and conversion power, the bail-in tool contains an express safeguard designed to leave no creditor worse off than in the case of insolvency.

In addition to the general bail-in tool, the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability. The point of non-viability is the point at which the Bank of Spain, the Fund for the Orderly Restructuring of Banks (the "**FROB**"), the Single Resolution Board and/or any other entity with the authority to exercise any such tools and powers from time to time (each, a "**Relevant Resolution Authority**") as appropriate, determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or converted into equity or extraordinary public support is to be provided and without such support the Relevant Resolution Authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Resolution Authority in accordance with Article 38.3 of Law 11/2015. These additional measures may be imposed prior to or in combination with any exercise of any other resolution tool or power (where the conditions for resolution referred to above are met).

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

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

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

There remains uncertainty as to how or when the bail-in power may be exercised and how it would affect the Group and the Notes. The determination that all or part of the principal amount of the Notes 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 Issuer's control. Although there are proposed pre-conditions for the exercise of the bail-in power, there remains uncertainty regarding the specific factors which the Relevant Resolution Authority would consider in deciding whether to exercise the bail-in power with respect to the financial institution and/or securities issued or guaranteed by that institution. In particular, in determining whether an institution is failing or likely to fail, the Relevant Resolution Authority shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, as the final criteria that the Relevant Resolution Authority would consider in exercising any bail-in power are likely to provide it with discretion, Holders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such bail-in power. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any bail-in power may occur which would result in a principal amount write off or conversion to equity. The uncertainty may adversely affect the value of Holders' investments in the Notes and the price and trading behaviour of the Notes 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 Noteholders.

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

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 Notes 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 Notes and/or the Group's ability to satisfy its obligations under the Notes.

The Notes provide for limited events of default. Noteholders 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 Notes. The terms and conditions of the Notes 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 Notes is not made when due, each Holder will have a claim only for amounts then due and payable on their Notes and, as provided for in the 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 Noteholder of its rights under the Notes 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 Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes 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 qualification of the Notes as TLAC/MREL-Eligible Instruments is subject to uncertainty

The Notes are intended to be TLAC/MREL-Eligible Instruments (as defined in the Conditions) under the Applicable TLAC/MREL Regulations (as defined in the Conditions). 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 Notes will be (or thereafter remain) TLAC/MREL-Eligible Instruments.

There currently are no European laws or regulations implementing the TLAC concept, which is set forth in the FSB TLAC Term Sheet (as defined in the Conditions). The European Commission has recently proposed directives and regulations intended to give effect to the FSB TLAC Term Sheet and to modify the requirements for MREL eligibility. While the terms and conditions of the Notes 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 Notes will ultimately be TLAC/MREL-Eligible Instruments. If for any reasons they are not TLAC/MREL-Eligible Instruments or if they initially are TLAC/MREL-Eligible Instruments and subsequently become ineligible due to a change in Spanish law or Applicable TLAC/MREL Regulations, then a TLAC/MREL Disqualification Event (as defined in the Conditions) will occur, with the consequences indicated below. See "—*The Notes may be redeemed prior to maturity upon the occurrence of a TLAC/MREL Disqualification Event or a Tax Event*".

The Notes may be redeemed prior to maturity upon the occurrence of a TLAC/MREL Disqualification Event or a Tax Event

The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at their outstanding principal amount, together with accrued but unpaid interest up to (but excluding) the date of redemption, upon or following the occurrence of a TLAC/MREL Disqualification Event or a Tax Event (as defined in the Conditions).

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

(i) on or before such redemption, the institution replaces the instruments with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or

(ii) the institution has demonstrated to the satisfaction of the competent authority that the own funds and eligible liabilities of the institution would, following such redemption, exceed the requirements laid down in the CRR, the CRD IV and the BRRD by a margin that the competent authority considers necessary.

It is not possible to predict whether or not the Notes will qualify as TLAC/MREL-Eligible Instruments (see "*—The qualification of the Notes as TLAC/MREL-Eligible Instruments is subject to uncertainty*") or if any further change in the laws or regulations of Spain, Applicable TLAC/MREL Regulations or, in the case of a Tax Event, 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 Notes, and if so whether or not the Issuer will elect to exercise such option to redeem the Notes or any prior consent of the competent authority, if required, will be given. The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. 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 Notes 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.

Early redemption features are also likely to limit the market value of the Notes. During any period when the Issuer can redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period if the market believes that the Notes may become eligible for redemption in the near term.

The Notes may be subject to substitution and/or variation without Holder consent

Subject as provided herein, in particular to the provisions of Condition 9, if a TLAC/MREL Disqualification Event, an Alignment Event or a Tax Event 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 Notes or (ii) to modify the terms of all (but not some only) of such Notes, in each case so that they are substituted for, or varied to, become, or remain, Qualifying Notes. While Qualifying Notes generally must contain terms that are materially no less favourable to Holders as the original terms of the Notes, there can be no assurance that the terms of any Qualifying Notes will be viewed by the market as equally favourable, or that the Qualifying Notes will trade at prices that are equal to the prices at which the Notes 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 Fiscal 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 Notes.

The terms of the Notes contain a waiver of set-off rights

The FSB TLAC Term Sheet and the Proposed CRR Amendment provide that eligible instruments may not be subject to set off or netting rights that would undermine their loss absorbing capacity in resolution. The exercise of set-off rights in respect of the Issuer's obligations under the Notes upon the opening of a resolution procedure would be prohibited by Article 68 of BRRD (as transposed into Spanish law).

The terms and conditions of the Notes provide that Holders 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 Notes against obligations owed by them to the Issuer.

The terms of the Notes 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 Notes and the terms and conditions of the Notes place no restrictions on the amount or type of debt that the Issuer may issue that ranks senior to the Notes, or on the amount or type of securities it may issue that rank *pari passu* with the Notes. 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 Notes, and result in a Holder losing all or some of its investment in the Notes.

In addition, the Notes 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 Notes.

Change of law

The terms and conditions of the Notes are subject to English law, except for Conditions 3 and 13 which are subject to Spanish law, as in effect as at the date of this 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 Notes. Such changes in law or official interpretation of such laws may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes. 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 Prospectus.

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

Furthermore, any change in the laws or regulations of Spain, Applicable TLAC/MREL Regulations 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 Notes (see "*—The Notes may be redeemed prior to maturity upon the occurrence of a TLAC/MREL Disqualification Event or a Tax Event*" and "*—The Notes may be subject to substitution and/or variation without Holder consent*"). In any such case, the Notes 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 Notes accurately and therefore affect the market price of the Notes given the extent and impact on the Notes of one or more regulatory or legislative changes.

Second ranking senior securities are new types of instruments for which there is no trading history

Spanish financial institutions have not issued any second ranking senior securities. Accordingly, there is no trading history for securities of Spanish financial institutions with this ranking. Market participants, including credit rating agencies, are in the initial stages of evaluating the risks associated with second ranking senior liabilities. The credit ratings assigned to second ranking senior securities such as the Notes may change as the rating agencies refine their approaches, and the value of such securities may be particularly volatile as the market becomes more familiar with them. It is possible that, over time, the credit ratings and value of second ranking senior securities such as the Notes will be lower than those expected by investors at the time of issuance of the Notes. If so, Holders may incur losses in respect of their investments in the Notes.

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 United Kingdom (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 Notes or that economic and market conditions will not have any other adverse effect.

There is no active trading market for the Notes

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

Taxation in Spain

Article 44 of Royal Decree 1065/2007, as amended ("**Royal Decree 1065/2007**") sets out the reporting obligations applicable to preferred shares 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 Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Fiscal 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 Notes and the issue price of the Notes.

In accordance with Article 44 of Royal Decree 1065/2007, the relevant Fiscal 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 Fiscal 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 Notes 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 Fiscal 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 11.

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 interest in respect of the Notes if the Holders do not comply with such information procedures.

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

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

The Commission's Proposal has very broad scope and could, if introduced in its current form, impose a tax at generally not less than 0.1%, generally determined by reference to the amount of consideration paid, on certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes would be subject to higher costs, and the liquidity of the market for the Notes 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 Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

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

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw. Prospective holders of Notes 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 Notes.

A Noteholder's effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes.

Payments of interest on the Notes, or profits realised by the Noteholder upon the sale or repayment of the Notes, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Notes. Certain tax effects on Noteholders generally exist in France, in the United Kingdom, in the United States, in Luxembourg, in Italy, in Belgium, in PRC and in Hong-Kong; however, the tax impact on an individual Noteholder may differ from the situation described for Noteholders generally. Potential investors are advised not to rely exclusively upon the tax summaries contained in the "*Taxation*" section of the Prospectus which in any event only cover certain tax consequences in particular jurisdictions, and are not intended to be exhaustive, but to seek advice from their own tax advisers as to their individual taxation situation with respect to an investment in the Notes.

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.

Interest rate risks

Investment in fixed rate notes involves the risk that subsequent changes in market interest rates may adversely affect the value of such fixed rate notes.

Foreign currency notes expose investors to foreign-exchange risk as well as to issuer risk

As purchasers of foreign currency notes, investors are exposed to the risk of changing foreign exchange rates. This risk is in addition to any performance risk that relates to the Issuer or the type of Note being issued.

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. Such risks generally depend on a number of factors, including financial, economic and political events over which the Issuer has no control. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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

The terms and conditions of the Notes and the Regulations of the Syndicate (as these terms are defined in the Conditions) contain provisions for calling general meetings of Holders (as defined in the Conditions) to consider matters affecting the interests of Holders generally, including the modification of such terms and conditions of the Notes. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

Risks relating to the Commissioner

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

Because the Global Certificate is 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

The Notes will be represented initially by a Global Certificate and will be registered in the name of the Registered Holder as a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

A Noteholder's actual yield on the Notes may be reduced from the stated yield by transaction costs

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, financial institutions as a rule charge their clients for own commissions, which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional — domestic or foreign — parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Any decline in the credit ratings of the Issuer or changes in rating methodologies may affect the market value of the Notes

One or more independent credit rating agencies may assign credit ratings of the Issuer with respect to the Notes. The credit ratings of the Issuer are an assessment of its ability to pay its obligations, including those on Notes. Consequently, actual or anticipated declines in the credit ratings of the Issuer may affect the market value of the Notes.

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 Notes. 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 addition, the credit rating agencies may change their methodologies for rating securities with features similar to the Notes in the future. This may include the relationship between ratings assigned to an Issuer's senior securities and ratings assigned to securities with features similar to the Notes, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and/or the ratings of the Notes were to be subsequently lowered, revised, suspended or withdrawn, this may have a negative impact on the trading price of the Notes.

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) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules. Neither the Issuer, the Managers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor of the Notes, 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.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which are incorporated by reference in this Prospectus:

1. an English language translation of the annual audited consolidated financial statements of the Santander Group (including the auditors' report thereon and notes thereto and the 2014 Directors' report) as of and for the year ended 31 December 2014 available for viewing on:

   http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D480%5C78%5CInf.+Audit+y+cunetas+2014+ENG+ACCE_.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278727906785&ssbinary=true

2. an English language translation of the annual audited consolidated financial statements of the Santander Group (including the auditors' report thereon, the notes thereto and the 2015 Directors' report) as of and for the year ended 31 December 2015 available for viewing on:

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

3. an English language translation of the audited consolidated interim financial report and interim Directors' report for the Santander Group as of and for the six-month period ended 30 June 2016:

   http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D856%5C653%5CEstados+Financieros-101016-gb.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278729446585&ssbinary=true

4. an English language translation of the unaudited consolidated interim financial report and interim Directors' report for the Santander Group as of and for the nine-month period ended 30 September 2016:

   http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D941%5C346%5CFolleto+3T16+ingles.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278733885759&ssbinary=true

5. an English language translation of the unaudited financial report of the Santander Group as of and for the twelve-month period ended 31 December 2016 available for viewing on:

   http://www.santander.com/csgs/StaticBS?blobcol=urldata&blobheadername1=content-type&blobheadername2=Content-Disposition&blobheadername3=appID&blobheadervalue1=application%2Fpdf&blobheadervalue2=inline%3Bfilename%3D560%5C191%5CFolleto+4+trim+2016+INGLES.pdf&blobheadervalue3=santander.wc.CFWCSancomQP01&blobkey=id&blobtable=MungoBlobs&blobwhere=1278734061100&ssbinary=true

The documents incorporated by reference that are listed in paragraphs 1 to 5 above have been filed with the Central Bank of Ireland.

The annual audited consolidated financial statements for the years ended 31 December 2015 and 2014 indicated above have been prepared in accordance with IFRS-EU, considering Circular 4/2004 of the Bank of Spain and subsequent amendments. The annual consolidated financial statements of the Santander Group as of and for the years ended 31 December 2015 and 31 December 2014 have been audited without qualification by the independent auditors, Deloitte, S.L. The consolidated interim financial report of the Santander Group as of and for the six-month period ended 30 June 2016 has been audited without qualification by the independent auditors, PricewaterhouseCoopers Auditores, S.L.

Copies of the documents specified above as containing information incorporated by reference in this Prospectus may be inspected, free of charge, during usual business hours, by physical or electronic means, at the registered office of the Issuer and at the office of the Fiscal Agent. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

Pursuant to Spanish regulatory requirements, Directors' reports are required to accompany the audited consolidated financial statements as of and for each of the years ended 31 December 2015 and 2014. Investors are cautioned that the reports contain information as of various historical dates and may not contain a current description of the business, affairs or results of the Santander Group. The information contained in the Directors' reports has not been audited or prepared for the specific purpose of the issue of the Notes and/or this Prospectus. Accordingly, the Directors' reports should be read together with the other sections of this Prospectus, and particularly "*Risk Factors*" and "*Description of the Issuer and the Santander Group*" Any information contained in the Directors' reports is deemed to be modified or superseded by any information contained elsewhere in this Prospectus that is subsequent to or inconsistent with it. Furthermore, the Directors' reports include certain forward-looking statements that are subject to inherent uncertainty. Accordingly, investors are cautioned not to rely upon the information contained in such Directors' report.

OVERVIEW OF THE OFFERING

The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. See, in particular, "Terms and Conditions of the Notes".

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

Issuer:	Banco Santander, S.A.
Managers:	Banco Santander, S.A., Barclays Bank PLC, HSBC Bank plc, Natixis, Bankia, S.A., Bankinter, S.A., DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Norddeutsche Landesbank –Girozentrale and UniCredit Bank AG
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Notes. These are set out under "*Risk Factors*" above and include risks relating to the Spanish economy and the global macroeconomic environment, risks relating to increasingly onerous capital requirements, the lack of availability of funding, volatility in interest rates and increased competition. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes which are also described in detail under "*Risk Factors*" above.
Issue size:	€1,500,000,000
Issue Date:	9 February 2017
Issue details:	€1,500,000,000 1.375 per cent. Second Ranking Senior Notes due 2022
Denominations:	€100,000
Issue price:	99.938 per cent. of the principal amount of the Notes
Use of Proceeds:	The Issuer intends to use the proceeds of the offering for general corporate purposes which may include investments in, or capital contributions to, its subsidiaries, and in connection with its general funding requirements.
Interest:	The Notes will bear interest on their outstanding principal amount at a fixed rate of 1.375 per cent. per annum from (and including) the Issue Date to (but excluding) the Maturity Date. Interest is payable annually in arrear on 9 February in each year, beginning on 9 February 2018 (See Condition 4). Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under Condition 11.

Status of the Notes:	The Notes constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer and rank *pari passu* and without any preference among themselves. Upon the insolvency (*concurso*) of the Issuer, its payment obligations under the Notes will, save as may be provided by mandatory applicable legislation in relation to creditors' rights, rank (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities (as defined in the Conditions), (b) *pari passu* with the claims under any Senior Parity Liabilities (as defined in the Conditions) and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer. See Condition 3.
Form:	The Notes will be issued in registered form and will be represented by a Global Certificate, which will be deposited with, and registered in the name of a nominee for, depositary common to Euroclear and Clearstream, Luxembourg.
Maturity Date:	9 February 2022
Tax and TLAC/MREL Disqualification Event Redemption:	Upon the occurrence of a Tax Event or a TLAC/MREL Disqualification Event, the Issuer may, at its option, redeem all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, subject to obtaining prior Supervisory Permission therefor, if required. See Condition 5(c) and (d).
Substitution and Variation:	In the event that a TLAC/MREL Disqualification Event, a Tax Event or an Alignment Event occurs and is continuing, the Issuer may substitute all (but not some only) of the Notes or modify the terms of all (but not some only) of the Notes, without any requirement for the consent or approval of the Noteholders, so that they become or remain Qualifying Notes, subject to obtaining Supervisory Permission, if required.
Purchases:	The Issuer may, subject to being permitted by Applicable TLAC/MREL Regulations and to obtaining prior Supervisory Permission, if required, purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. See Condition 5(e).
Rating:	The Notes are expected to be rated A- by Fitch, Baa2 by Moody's and BBB+ by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Listing:	Application has been made to the ISE for the Notes to be admitted to the Official List and trading on the Main Securities Market of the ISE.
Governing Law:	English law, save for Conditions 3 and 13, which are governed by the laws of the Kingdom of Spain.
Selling Restrictions:	United States, United Kingdom and Spain. See "*Subscription, Sale and Transfer*"

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the €1,500,000,000 1.375 per cent. Second Ranking Senior Notes due 2022 (the **"Notes"**) of Banco Santander, S.A. (the **"Issuer"**) was authorised by resolutions passed by (i) the general shareholders' meeting of the Issuer on 18 March 2016, (ii) the board of directors of the Issuer on such same date and (iii) the executive committee of the Issuer on 23 January 2017.

A fiscal and paying agency agreement dated 9 February 2017 (the **"Fiscal Agency Agreement"**) has been entered into in relation to the Notes between, among others, the Issuer, The Bank of New York Mellon, London Branch as fiscal and paying agent, The Bank of New York Mellon (Luxembourg) S.A. as registrar and transfer agent and any successor agents appointed from time to time in connection with the Notes. The Notes have the benefit of a Deed of Covenant (the **"Deed of Covenant"**) dated 9 February 2017 executed by the Issuer relating to the Notes. The fiscal and paying agent, the registrar and any transfer agent for the time being are referred to below respectively as the **"Fiscal Agent"**, the **"Registrar"** and the **"Transfer Agents"**. **"Agents"** means the Fiscal Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Notes, and any reference to an **"Agent"** is to any one of them. The Fiscal Agency Agreement includes the form of the Notes. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of the Fiscal Agent, the Registrar and any Transfer Agents. The Holders (as defined in Condition 1(b)) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

*The Notes will be issued following the execution of a public deed (escritura pública) (the **"Public Deed"**) before a Spanish notary public, to be registered with the Mercantile Registry of Cantabria on, prior to or after the Issue Date. The Public Deed will contain, among other information, the terms and conditions of the Notes.*

1 Form, Denomination and Title

(a) Form and Denomination

The Notes are in registered form and are serially numbered in the denomination of €100,000.

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2*(a)*, each Certificate shall represent the entire holding of Notes by the same Holder.

(b) Title

Title to the Notes 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 Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note 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 the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

In these Conditions, "**Noteholder**" or "**Holder**" means the person in whose name a Note is registered.

2 Transfers of Notes

(a) Transfer

A holding of Notes may, subject to Condition 2*(d)*, be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries in the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2*(a)* shall be available for delivery within three business days of receipt of a duly completed and executed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate(s) shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2*(b)*, **"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 relevant Transfer Agent or the Registrar (as the case may be).

(c) Transfer Free of Charge

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) Closed Periods

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, or (ii) during the period of 15 days prior to (and including) any earlier date fixed for redemption of that Note pursuant to Condition 5(c) or (d) or the date of substitution pursuant to Condition 9, or (iii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)).

3 Status of Notes

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations (*créditos ordinarios*) of the Issuer and rank *pari passu* and without any preference among themselves.

Upon the insolvency (*concurso*) of the Issuer, its payment obligations under the Notes will, save as may be provided by mandatory applicable legislation in relation to creditors' rights, rank (i) within the senior and unsecured liabilities (*créditos ordinarios*) class of the Issuer (a) junior to the claims under all Senior Higher Priority Liabilities, (b) *pari passu* with the claims under any Senior Parity Liabilities, and (ii) senior to any present and future subordinated obligations (*créditos subordinados*) of the Issuer.

The Notes are intended to constitute Statutory Second Ranking Senior Liabilities ranking below Statutory Ordinary Senior Liabilities pursuant to any Senior Ranking Amendment Legislation (to the extent permitted by such Senior Ranking Amendment Legislation) but ahead of all the subordinated obligations (*créditos subordinados*) of the Issuer.

Without prejudice to Condition 9, if the Senior Ranking Amendment Legislation (if any) makes it a condition for Statutory Second Ranking Senior Liabilities or other instruments comprising the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class (such as the Notes), upon the insolvency (*concurso*) of the Issuer, to rank below the obligations under any Statutory Ordinary Senior Liabilities or the rest of unsubordinated and unsecured liabilities (*créditos ordinarios*) (such as those under all Senior Higher Priority Liabilities), that the relevant contractual documentation in respect of Statutory Second Ranking Senior Liabilities or other instruments comprising the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class, explicitly refers to their ranking relative to the Statutory Ordinary Senior Liabilities or the rest of unsubordinated and unsecured liabilities (*créditos ordinarios*), the Holders (by virtue of their subscription and/or purchase and holding of the relevant Notes) will be deemed to have irrevocably accepted the status of the Notes described above for the purpose of the Senior Ranking Amendment Legislation.

4 Interest Payments

(a) Interest Rate

The Notes bear interest on their outstanding principal amount at the Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 4.

Interest shall be payable on the Notes annually in arrear on each Interest Payment Date as provided in this Condition 4.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the actual number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) Interest Accrual

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 5(a), (c) or (d) or the date of substitution thereof pursuant to Condition 9, as the case may be, unless, upon surrender of the Certificate representing any Note, payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

(c) Calculation of Amount of Interest per Note

Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall be equal to the product of the Calculation Amount, the Interest Rate and the day-count fraction as described in Condition 4(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

5 Redemption and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on the Maturity Date. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

(b) Condition to Redemption and Purchase prior to Final Redemption

Any redemption or purchase of the Notes in accordance with Condition 5(c), (d) or (e) is subject to such redemption or purchase being permitted by Applicable TLAC/MREL Regulations and subject to the Issuer obtaining prior Supervisory Permission therefor, if required.

Prior to the publication of any notice of redemption pursuant to Condition 5(c) or (d), the Issuer shall deliver to the Fiscal Agent and the Commissioner (i) a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem are satisfied and (ii) in the case of a redemption pursuant to Condition 5(c) only, an opinion from a nationally recognised law firm or other tax adviser in the Kingdom of Spain experienced in such matters to the effect that the relevant requirement or circumstance referred to in the definition of "Tax Event" prevails.

(c) Redemption Due to Tax Event

If a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption and the applicable Record Date), elect to redeem in accordance with these Conditions all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (i) would be obliged to pay Additional Amounts, or (ii) would no longer be entitled to claim a deduction or the amount of such deduction would be materially reduced, in each case, were a payment in respect of the Notes then due. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(d) Redemption Due to TLAC/MREL Disqualification Event

If following the TLAC/MREL Requirement Date, a TLAC/MREL Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption and the applicable Record Date), elect to redeem in accordance with these Conditions all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(e) Purchases

The Issuer or any member of the Group may, subject to Condition 5(b), purchase (or otherwise acquire) Notes in any manner and at any price in accordance with Applicable TLAC/MREL Regulations. The Notes so purchased (or acquired), while held by or on behalf of the Issuer or any member of the Group, shall not entitle the Holder to vote at any General Meeting of Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at General Meetings of Holders.

6 Payments

(a) Method of Payment

(i) Payments of principal shall be made in euro (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in like manner as is provided for payments of interest in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown in the Register at the close of business on the business day before the due date for payment thereof (the **"Record Date"**). Payments of interest on each Note shall be made in euro by cheque drawn on a bank and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register or upon application by the Holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in euro maintained by the payee with a bank in a city in which banks have access to the TARGET System.

(b) Payments Subject to Laws

Save as provided in Condition 11, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 6(a) arrives after the due date for payment.

(d) Non-Business Days

If any date for payment in respect of any Note is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 6, **"business day"** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar or of the relevant Transfer Agent is located and which is a TARGET Business Day.

7 Events of Default

Save as provided below, there are no events of default under the Notes which could lead to an acceleration of the Notes.

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 General Meeting of Holders or a merger with another financial institution, whether or not approved by the General Meeting of Holders, 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 Note may, unless there has been a resolution to the contrary at a General Meeting of Holders, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, be declared immediately due and payable, whereupon the principal amount of such Notes 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 Notes and such default continues for a period of seven days then, (i) the Commissioner, acting upon a resolution of the General Meeting of Holders, in respect of all Notes, or (ii) unless there has been a resolution to the contrary by the General Meeting of Holders (which resolution shall be binding on all Holders), any Holder in respect of the Notes 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 General Meeting of Holders, or (ii) unless there has been a resolution to the contrary by the General Meeting of Holders (which resolution shall be binding on all Holders), any Holder in respect of the Notes 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 Notes, 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 Notes sooner than the same would otherwise have been payable by it or any damages.

Neither a cancellation of the Notes, a reduction, in part or in full, of the principal amount of the Notes or any accrued and unpaid interest on the Notes, 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 Notes 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.

8 Waiver of Set-off

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 Note) 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 Notes 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 Note but for this Condition.

9 Substitution and Variation

If a TLAC/MREL Disqualification Event, Tax Event or Alignment Event occurs and is continuing, the Issuer may substitute all (but not some only) of the Notes or modify the terms of all (but not some only) of the Notes, without any requirement for the consent or approval of the Noteholders, so that they are substituted for, or varied to, become, or remain, Qualifying Notes, subject to having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for substitution or, as applicable, variation), and subject to obtaining Supervisory Permission, if required.

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 Notes. 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 Notes, be deemed to accept the substitution or variation of the terms of the Notes 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 Notes, as applicable.

10 Waiver of Rights

Each Holder will be deemed to have waived in insolvency (*concurso*) and resolution scenarios applicable to the Issuer, by virtue of its subscription and/or purchase and holding of any Note, any and all claims, compensation and rights that it may otherwise have and whether arising under statute or as a matter of contract, tort or otherwise (collectively, "**Compensation Rights**") if and to the extent that the amounts and/or other assets receivable by such Holder as a result of the Compensation Rights attributable to that Note would otherwise exceed the amounts and/or other assets which a holder of a Notional Security would be entitled to in such insolvency (*concurso*) or, as applicable, resolution scenario (to such extent, "**Relevant Compensation Rights**").

If and to the extent that its waiver of Relevant Compensation Rights is not otherwise effective, by virtue of its subscription and/or purchase and holding of any Note, each Holder shall, without the need for any further step or action on the part of any person, assign (and be treated as having assigned) irrevocably such Relevant Compensation Rights and any amounts and/or any certificates of entitlement or other assets attributable to such Relevant Compensation Rights (including any claim for damages) received or receivable by it to the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Fiscal Agent (or such other person as is nominated by them for such purposes) as nominee for creditors in respect of Senior Higher Priority Liabilities.

In addition, if and to the extent that such waiver and assignment are not otherwise effective and a Holder receives any amounts in respect of such Relevant Compensation Rights from any person, such Holder shall immediately (in the case of compensation received in cash) pay an amount in cash equal to such amount or (in the case of compensation received in the form of securities or other non-cash assets) deliver such assets (and, in either case, any certificate of entitlement relating thereto) so received to the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Fiscal Agent (or their nominee, as the case may be) to be applied as they (or their nominee) sees fit and, until such time as such payment or delivery is made, shall (in the case of cash compensation) hold an amount equal to such amount in cash or (in the case of compensation in the form of securities or other non-cash assets) hold such assets in trust for the relevant insolvency administrator or resolution authority or, if necessary, the Commissioner or the Fiscal Agent (or their nominee, as the case may be).

11 Taxation

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Holder of any Note of such amounts as would have been received by them had no such withholding or deduction been required ("**Additional Amounts**"). The Issuer shall not be required to pay any Additional Amounts in relation to any payment in respect of any Note:

(i) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of such Note; or

(ii) to, or to a third party on behalf of, a Holder in respect of whose Note 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) where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(v) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Agent in a Member State of the European Union; or

(vi) to, or to a third party on behalf of, individuals resident for tax purposes in the Relevant Jurisdiction; or

(vii) 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 Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

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 Conditions, any amounts to be paid on the Notes 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 any 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.

12 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

13 Constitution of the Syndicate and Exercise of Rights by Holders of the Notes

The rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer are contained in the regulations of the Syndicate (the **"Regulations"**) attached to the Public Deed and its translation into English in the form scheduled to the Fiscal Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer has appointed Mr. Javier Merino Merchán as Commissioner for the Syndicate pursuant to the Public Deed.

By acquiring a Note, the Holder will automatically become a member of the Syndicate. The Commissioner is the chairperson and the legal representative of the Syndicate. No person shall be entitled to acquire any Note without becoming a member of the Syndicate. The provisions for General Meetings of Holders are contained in the Regulations. The object and purpose of the Syndicate is to govern the relationship between such Holders. The domicile of the Syndicate is in Boadilla del Monte, Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660, Madrid.

The Issuer may, with the consent of the Fiscal Agent and the Commissioner, but without the consent of the Holders amend these Conditions, which in the sole opinion of the Issuer is required to (a) correct any manifest error, (b) make any amendment of a formal, minor or technical nature or to comply with mandatory provisions of law, or (c) make any amendment that is not prejudicial to the interests of the Holders. In addition, the Issuer and the Holders, the latter with the sanction of a resolution of the Syndicate as set out below, may agree any modification, whether material or not, to these Conditions and any waiver of any breach or proposed breach of these Conditions.

The Holders will have no voting rights at any extraordinary or ordinary general shareholders' meeting of the Issuer.

(a) Except as provided above, any amendment to the terms and conditions of the Notes shall be approved by the Holders. Such amendments will be approved with the consent of Holders by a resolution adopted in a General Meeting of Holders in accordance with the procedures, quorum requirements and majorities established in the Regulations.

(b) Any General Meetings of Holders may be called in accordance with article 7 of the Regulations. Such notice will also be published on the website of the Irish Stock Exchange (www.ise.ie) (so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require).

(c) The Issuer may without the consent or sanction of the Holders: (i) take any action required to issue or incur additional Senior Parity Liabilities without limit as to amount; or (ii) take any action required to authorise, create and issue one or more other classes or series of securities or instruments ranking junior to the Notes.

The Issuer shall only permit any modification, waiver or authorisation of any breach or proposed breach or any failure to comply with the Fiscal Agency Agreement if to do so could not, in its sole opinion, reasonably be expected to be prejudicial to the interests of the Holders.

Any modification, waiver or authorisation in accordance with this Condition 13 shall be binding on the Holders and shall be notified by the Issuer to the Holders as soon as practicable thereafter through its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and in accordance with Condition 16.

The Notes do not grant their Holders pre-emption rights in respect of any possible future issues of other securities by the Issuer or any member of the Group.

14 Currency Indemnity

The currency in which the Notes are denominated (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, 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 in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to 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 in respect of such Note 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 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 Notes or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder and no proof or evidence of any actual loss will be required by the Issuer.

15 Replacement of the Notes

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and, regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Registrar or Transfer Agent, as the case may be. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16 Notices

Notices to the Holders shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if it is a requirement of applicable law or regulations, notices to Holders will be published on the date of such mailing in a leading newspaper having general circulation in Ireland or published on the website of the Irish Stock Exchange or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing. Any such notice shall be deemed to have been given to Holders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

Copies of any notices given to Holders shall also be sent to the Commissioner.

Notices to be given by any Holder shall be in writing and given by lodging the same with the Registrar. Whilst any of the Notes are represented by a Global Certificate, such notice may be given by any Holder to the Registrar through Euroclear and/or Clearstream Luxembourg, as the case may be, in such manner as the Registrar and Euroclear and/or Clearstream Luxembourg, as the case may be, may approve for this purpose.

17 Further Issues

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

18 Agents

The initial Fiscal Agent, the Registrar and the Transfer Agents and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right, at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar and the Transfer Agents and to appoint replacement agents or other Transfer Agents, provided that it will at all times maintain a Fiscal Agent, a Registrar and a Transfer Agent.

Notice of any such termination or appointment and of any change in the specified offices of the Agents will be given to the Holders in accordance with Condition 16. If any of the Registrar or the Fiscal Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Fiscal Agency Agreement (as the case may be), the Issuer shall appoint an independent financial institution to act as such in its place. All calculations and determinations made by the Registrar or the Fiscal Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Registrar, the Fiscal Agent and the Holders.

19 Governing Law and Jurisdiction

(a) Governing Law

Save as described below, the Notes 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 13 shall be governed by, and shall be construed in accordance with, Spanish law.

(b) Jurisdiction

The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes (**"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).

(c) Service of Process

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 Noteholders of such appointment in accordance with Condition 16. Nothing shall affect the right to serve process in any manner permitted by law.

20 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

21 Bail-in

(a) Acknowledgement

Notwithstanding any other term of the Notes or any other agreement, arrangement or understanding between the Issuer and the Holders, by its subscription and/or purchase and holding of the Notes, each Holder (which for the purposes of this Condition 21 includes each holder of a beneficial interest in the Notes) 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 Notes, in which case the Holder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person;
- the cancellation of the Notes or Amounts Due;
- the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

(ii) that the terms of the Notes 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.

(b) Payment of Interest and Other Outstanding Amounts Due

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.

(c) Notice to Noteholders

Upon the exercise of any Bail-in Power by the Relevant Resolution Authority with respect to the Notes, 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.

(d) Duties of the Agents

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 Fiscal 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.

(e) Proration

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 Notes pursuant to the Bail-in Power will be made on a pro-rata basis.

(f) Conditions Exhaustive

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 a Note.

22 Definitions

In these Conditions:

"Additional Amounts" has the meaning given to it in Condition 11;

An "**Alignment Event**" is deemed to have occurred if, following the implementation of the Senior Ranking Amendment Legislation or an amendment thereof, the terms and conditions of Statutory Second Ranking Senior Liabilities or the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class, are different in any respect from the Conditions. Further, an Alignment Event will be deemed to have occurred if the Senior Ranking Amendment Legislation requires that only securities issued on or following a certain date which is after the Issue Date may qualify as Statutory Second Ranking Senior Liabilities or as the most junior sub-class within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class;

"Amounts Due" means the principal amount, together with any accrued but unpaid interest, and Additional Amounts, if any, due on the Notes. 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;

"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);

"Authorised Signatory" means any director of the Issuer (or any signatory authorised to act on its behalf);

"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 Royal Decree 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London and, if on that day a payment is to be made, a day which is a TARGET Business Day also;

"Calculation Amount" means €100,000 in principal amount;

"Commissioner" means the trustee (*comisario*), as this term is defined under the Corporations Law, of the Syndicate;

"**Compensation Rights**" has the meaning given to it in Condition 10;

"Competent Authority" 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;

"Conditions" means these terms and conditions of the Notes, as amended from time to time;

"Corporations Law" means the Royal Decree Legislative 1/2010, of 2 July 2010, approving the consolidated text of the Spanish Corporations Law (*Ley de Sociedades de Capital*), as amended from time to time;

"**Corresponding Amount**" means an aggregate principal amount equal to the aggregate principal amount of the Notes plus the aggregate principal amount of all other Senior Parity Liabilities;

"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 Competent Authority, 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 minimum requirement for own funds and eligible liabilities 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;

"€" or **"euro"** means the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

"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;

"Fiscal Agency Agreement" has the meaning given to it in the preamble to these Conditions;

"Fiscal Agent" has the meaning given to it in the preamble to these Conditions;

"FSB TLAC Term Sheet" means the Total Loss-absorbing Capacity (TLAC) term sheet set forth in the document dated 9 November 2015 published by the Financial Stability Board, entitled "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution," as amended from time to time;

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

"Group" means the Issuer and its consolidated subsidiaries from time to time;

"Holder" has the meaning given to it in Condition 1;

"Interest Payment Date" means 9 February in each year, starting on (and including) 9 February 2018;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Rate" means 1.375 per cent. per annum;

"Issue Date" means 9 February 2017, being the date of the initial issue of the Notes;

"Issuer" means Banco Santander, S.A.;

"Law 10/2014" means 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 11/2015" means Law 11/2015 of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended from time to time;

"Maturity Date" means 9 February 2022;

"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;

"Noteholder" has the meaning given to it in Condition 1;

"Notes" has the meaning given to it in the preamble to these Conditions;

"**Notional Security**" means, in respect of a Note, a notional security with the same principal amount as such Note and with the same rate of interest and accrued rights as such Note, being one of a notional class of securities in the Issuer, which class is in the Corresponding Amount and ranks as set out in Condition 3, i.e. junior to the claims of Senior Higher Priority Liabilities but senior to the claims of holders of all subordinated obligations (*créditos subordinados*) of the Issuer in issue;

"Qualifying Notes" means, at any time, any securities denominated in euros and issued directly by the Issuer that have terms not otherwise materially less favourable to the Holders than the terms of the Notes provided that the Issuer shall have delivered a certificate signed by two Authorised Signatories to that effect to the Fiscal Agent and the Commissioner not less than five Business Days prior to (x) in the case of a substitution of the Notes pursuant to Condition 9, the issue date of the relevant securities or (y) in the case of a variation of the Notes pursuant to Condition 9, the date such variation becomes effective, provided that such securities shall:

(i) 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

(ii) carry the same rate of interest as the Notes prior to the relevant substitution or variation pursuant to Condition 9; and

(iii) have the same denomination and aggregate outstanding principal amount as the Notes prior to the relevant substitution or variation pursuant to Condition 9; and

(iv) have the same date of maturity and the same dates for payment of interest as the Notes prior to the relevant substitution or variation pursuant to Condition 9; 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 TLAC/MREL Disqualification Event, an Alignment Event and/or a Tax Event; and

(vii) be listed or admitted to trading on any stock exchange as selected by the Issuer, if the Notes were listed or admitted to trading on a stock exchange immediately prior to the relevant substitution or variation pursuant to Condition 9,

"Record Date" has the meaning given to it in Condition 6(a);

"Register" has the meaning given to it in Condition 1(b);

"Registrar" has the meaning given to it in the preamble to these Conditions;

"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;

"**Relevant Compensation Rights**" has the meaning given to it in Condition 10;

"Relevant Date" means in respect of any payment, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender;

"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 Notes;

"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;

"Royal Decree 1012/2015" means Royal Decree 1012/2015, of 6 November, implementing Law 11/2015;

"Senior Higher Priority Liabilities" means the unsubordinated and unsecured obligations of the Issuer (*créditos ordinarios*), other than those under the Notes and the Senior Parity Liabilities;

"Senior Parity Liabilities" means any other unsubordinated and unsecured obligations of the Issuer (*créditos ordinarios*) which, by law and/or by their terms, rank *pari passu* with the Issuer's obligations under the Notes at that time;

"Senior Ranking Amendment Legislation" means, if and as applicable, a Spanish piece of legislation that expressly provides for the possibility that, upon the insolvency (*concurso*) of a Regulated Entity issuer of debt securities (i) the obligations under certain unsubordinated and unsecured liabilities (*créditos ordinarios*") (the "**Statutory Second Ranking Senior Liabilities**") may rank below those of other unsubordinated and unsecured liabilities (*créditos ordinarios*) with higher priority ranking (the "**Statutory Ordinary Senior Liabilities**"), or (ii) different sub-classes within the unsubordinated and unsecured liabilities (*créditos ordinarios*) class are contractually agreed;

"Statutory Ordinary Senior Liabilities" has the meaning given to it in the definition of Senior Ranking Amendment Legislation;

"Statutory Second Ranking Senior Liabilities" has the meaning given to it in the definition of Senior Ranking Amendment Legislation;

"Supervisory Permission" means, in relation to any action, such supervisory permission (or, as appropriate, waiver) from the Competent Authority and/or the Relevant Resolution Authority as is required therefor under Applicable TLAC/MREL Regulations (if any);

"Syndicate" means the syndicate (*sindicato de obligacionistas*) as this term is described under the Corporations Law;

"TARGET Business Day" means a day on which the TARGET System is operating;

"TARGET System" means the Trans European Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto);

A **"Tax Event"** is deemed to have occurred if, as a result of a Tax Law Change:

(i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; or

(ii) the Issuer is no longer entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced;

"Tax Law Change" means 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 official interpretation of such laws or regulations, including a decision of any court or tribunal, which change or amendment becomes effective on or after the Issue Date;

"**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 Notes does not fully qualify as TLAC/MREL-Eligible Instruments of the Issuer and/or the Group, except where such non-qualification (i) was reasonably foreseeable as at the Issue Date or (ii) is due solely to the remaining maturity of such Notes being less than any period prescribed for TLAC/MREL-Eligible Instruments by the Applicable TLAC/MREL Regulations or (iii) is as a result of the relevant Notes being bought back by or on behalf of the Issuer or a buy back of the relevant Notes which is funded by or on behalf of the Issuer.

For the purpose of paragraph (i) of this definition, the circumstances where any non-qualification of the Notes as TLAC/MREL-Eligible Instruments shall not be "reasonably foreseeable" shall, without limitation, be deemed to include where such non-qualification arises as a result of (a) any legislation which gives effect to the EC Proposals in the Kingdom of Spain differing in any respect from the form of the EC Proposals as published by the European Commission on 23 November 2016 (the "**Draft EC Proposals**") (including if the EC Proposals are not implemented in full in the Kingdom of Spain), or (b) the official interpretation or application of the Draft EC Proposals or the EC Proposals as implemented in the Kingdom of Spain (including any interpretation or pronouncement by any relevant court, tribunal or authority) differing in any respect from the manner in which the Draft EC Proposals have been reflected in these 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;

"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;

"Transfer Agents" has the meaning given to it in the preamble to these Conditions; and

"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 Note.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the "**Registered Holder**") for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3 Exchange

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

4 Amendment to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

USE OF PROCEEDS

The Issuer intends to use the proceeds of the offering for general corporate purposes which may include investments in, or capital contributions to, its subsidiaries, and in connection with its general funding requirements.

DESCRIPTION OF THE ISSUER AND THE SANTANDER GROUP

History and Development of the Issuer and the Group

Legal and commercial 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". Banco Santander is the parent company of the Group.

The Issuer is a Spanish company 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**"). The Issuer is subject to special legislation applicable to credit entities and private banking in general, and the supervision, control and regulation of the ECB.

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

The current bylaws, which have been adapted to the Spanish Companies Law, were approved by the shareholders at the general shareholders' meeting held on 18 March 2016 and filed with the Office of the Mercantile Registry on 25 May 2016.

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

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

Date of incorporation and length of life

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.

Domicile, legal form and registration details

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

The 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.

Recent Developments

Acquisitions, Dispositions, Reorganisations and Other Recent Events

The Group's principal acquisitions and dispositions in 2016, 2015 and 2014 were as follows:

Sale of Altamira Asset Management

On 21 November 2013, the Group announced that it had reached a preliminary agreement with Apollo European Principal Finance Fund II ("**Apollo**"), a fund managed by subsidiaries of Apollo Global Management, LLC, for the sale of Altamira Asset Management, S.L., the platform for managing the recovery of Banco Santander's loans in Spain and for managing and marketing the properties obtained through this activity.

On 3 January 2014, the Group announced that it had sold 85% of the share capital of Altamira Asset Management, S.L. to Altamira Asset Management Holdings, S.L., an investee of Apollo for €664 million, giving rise to a net gain of €385 million, which was recognised in the Group's consolidated income statement for 2014.

Following this transaction, the Group retained the aforementioned property assets and loan portfolio on the Group's balance sheet, while management of these assets is carried out from the platform owned by Apollo.

Santander Consumer USA

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

Since the ownership interests of the aforementioned shareholders were reduced below specified percentages following the offering, the shareholders' agreement previously entered into by the shareholders was terminated in accordance with its terms; this entailed the termination of the agreement which, inter alia, had granted Sponsor Holdings and DDFS representation on the board of directors of SCUSA and had established a voting system under which the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders. Therefore, SCUSA ceased to be controlled jointly by all the above and is now controlled by the Group on the basis of the percentage held in its share capital ("**change of control**").

Prior to this change of control, the Group accounted for its ownership interest in SCUSA using the equity method. Following the change of control, the Group fully consolidated its ownership interest in SCUSA and, on the date it obtained control, included all of SCUSA's assets and liabilities in its consolidated balance sheet at their fair value.

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

On 3 July 2015, the Group announced that it had reached an agreement to acquire the stake held by DDFS in SCUSA, representing 9.68% of the company, for US$928 million. The transaction is subject to regulatory approval. If the transaction closes, the Group's stake in SCUSA will be approximately 68.62%.

Agreement with El Corte Inglés

On 7 October 2013, the Group announced that it had entered into a strategic agreement through its subsidiary Santander Consumer Finance, S.A. ("**Santander Consumer Finance**") with El Corte Inglés, S.A. in the area of consumer finance, which included the acquisition of 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A. ("**Financiera El Corte Inglés**"), with El Corte Inglés, S.A. retaining the remaining 49%. On 27 February 2014, following the receipt of the relevant regulatory and competition authorisations, the acquisition was completed. Santander Consumer Finance paid €140 million for 51% of the share capital of Financiera El Corte Inglés.

GetNet Tecnologia Em Captura e Processamento de Transações H.U.A.H. S.A.

On 7 April 2014, Santander Brazil announced that it had reached an agreement to purchase through an investee all the shares of GetNet Tecnologia Em Captura e Processamento de Transações H.U.A.H. S.A. ("**GetNet**"). The transaction was completed on 31 July 2014 for a purchase price of BRL1,156 million (approximately €383 million), giving rise to goodwill of €229 million.

Acquisition of non-controlling interests in Santander Brazil

On 28 April 2014, the Bank's board of directors approved a bid for the acquisition of all the shares of Santander Brazil not then owned by the Group, which represented approximately 25% of the share capital of Santander Brazil, offering in consideration Bank shares in the form of Brazilian Depositary Receipts (BDRs) or American Depositary Receipts (ADRs). As part of the bid, the Bank requested that its shares be listed on the São Paulo Stock Exchange in the form of BDRs.

The offer was voluntary, in that the non-controlling shareholders of Santander Brazil were not obliged to participate, and it was not conditional upon a minimum acceptance level. The consideration offered, following the adjustment made as a result of the application of the Santander Dividendo Elección scrip dividend scheme in October 2014, consisted of 0.7152 new Banco Santander shares for each unit or ADR of Santander Brazil and 0.3576 new Banco Santander shares for each ordinary or preference share of Santander Brazil.

The bid was accepted by holders of 13.65% of the share capital of Santander Brazil. Accordingly, the Group's ownership interest in Santander Brazil rose to 88.30% of its share capital. To cater for the exchange, the Bank, executing the agreement adopted by the extraordinary general shareholders' meeting held on 15 September 2014, issued 370,937,066 shares, representing approximately 3.09% of the Bank's share capital at the issue date. The aforementioned transaction gave rise to an increase of €185 million in share capital, €2,372 million in share premium and €15 million in reserves, and a reduction of €2,572 million in non-controlling interests.

The shares of Santander Brazil continue to be listed on the São Paulo and New York stock exchanges.

Agreement with CNP

On 10 July 2014, the Group announced that it had reached an agreement with the French insurance company CNP Assurances ("**CNP**") to sell a 51% stake in three insurance companies based in Ireland (Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited) that distribute life and non-life products through the Santander Consumer Finance network.

In December 2014, after the regulatory authorisations were obtained, CNP paid €297 million to acquire 51%, or a controlling interest in, the three aforementioned insurance companies. The agreement includes deferred payments to CNP in 2017 and 2020 and deferred amounts receivable by the Group in 2017, 2020 and 2023, based on the business plan.

The agreement included the execution of a 20-year retail agreement, renewable for five-year periods, for the sale of life and non-life insurance products through the Santander Consumer Finance network, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of €413 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale, of which €207 million related to the fair value recognition of the 49% ownership interest retained by the Group.

Agreement with GE Capital

On 23 June 2014, the Group announced that Santander Consumer Finance, its consumer finance unit, had reached an agreement with GE Money Nordic Holding AB ("**GE Nordics**") to acquire GE Capital's business in Sweden, Denmark and Norway for approximately €693 million at the date of the announcement. The acquisition was completed on 6 November 2014, following the receipt of the relevant authorisations.

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 July 2014 for the joint operation of a vehicle financing business in twelve European countries. Pursuant to the terms of the agreement, the Group will finance this business under certain circumstances and conditions from the date on which the transaction is completed. In addition, in certain countries, the Group will purchase the current lending portfolio of Banque PSA Finance. The Group also entered into a cooperation agreement relating to the insurance business in all these countries.

In January 2015, the relevant regulatory authorisations were obtained for the commencement of activities in France and the United Kingdom. As a result, the Group acquired in February 2015 50% of Société Financière de Banque (SOFIB) and PSA Finance UK Limited for €462 million and €148 million, respectively.

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

Agreement to acquire Carfinco

On 16 September 2014, the Issuer announced that it had reached an agreement to acquire the listed Canadian company Carfinco Financial Group Inc. ("**Carfinco**"). The board of directors of Carfinco approved the transaction and recommended to its shareholders that they vote in favour of it at the general meeting called for such purpose and the transaction was completed on 6 March 2015 for an amount of €209 million generating goodwill of €162 million.

Metrovacesa, S.A.

On 19 December 2012, the creditor entities that participated in a debt restructuring agreement for the Sanahuja group under which they received shares of Metrovacesa, S.A. ("**Metrovacesa**") as payment for that group's debt, announced that they reached an agreement to promote the delisting of the shares of Metrovacesa and they voted in favour of this at the general meeting held for this purpose on 29 January 2013. Following the approval of the delisting and the public takeover offer at the Metrovacesa general meeting, the entities made a delisting public takeover offer of €2.28 per share to the Metrovacesa shareholders that had not entered into the agreement. The Issuer participated in the delisting public takeover offer by acquiring an additional 1.95% of Metrovacesa for €44 million.

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

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

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

Acquisition of Banco Internacional do Funchal (Banif)

On 21 December 2015, the Group announced that, with the aim of providing continuity to Banco Internacional do Funchal ("**Banif**") and safeguarding the interest of its customers, the Bank of Portugal, the resolution authority, had decided to award Banif's business to Banco Santander Totta, S.A. ("**Santander Totta**"), a subsidiary of Banco Santander.

The transaction was carried out via the transfer of a large part (the commercial banking business) of Banif's assets and liabilities to Santander Totta. Santander Totta paid €150 million for Banif's assets and liabilities. Meanwhile, other assets and liabilities remained in Banif, which is responsible for any possible litigation resulting from its past activity, for their orderly liquidation or sale.

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

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

Custody business

On 19 June 2014, the Group announced that it had reached a definitive agreement with FINESP Holdings II B.V., a subsidiary of Warburg Pincus, to sell a 50% stake in Santander's current custody business in Spain, Mexico and Brazil. The remaining 50% will be retained by the Group.

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

As of 30 June 2016, the parties had not agreed an alternative investment structure to carry out the alliance announced on 19 June 2014.

Metrovacesa agreement

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

As a result of the integration, the Group's direct ownership interest in the share capital of Merlin and Testa will rise to 21.95% and 46.21%, respectively.

The integration has already been approved by the relevant authorities and the shareholders of Merlin and Metrovacesa at their respective general meetings and its completion is pending finalisation of the corporate process, including the term allowed for creditor opposition. This transaction is expected to become effective in the first quarter of 2017.

The impact of the integration transaction, once executed, on the Group's financial statements is marginal.

SHUSA and SCUSA restatement of financial statements

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

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

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

Commercial transformation plan

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

Visa stake disposal

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

Santander Asset Management

On 16 November 2016, the Issuer announced that it had reached an agreement with its partners Warburg Pincus and General Atlantic to acquire from them their 50% stake in Santander Asset Management. Consequently, following the acquisition, the Issuer will own 100% of Santander Asset Management.

As a part of this transaction, the Issuer, Warburg Pincus and General Atlantic have agreed to explore different alternatives for the sale of their participation in Allfunds Bank, S.A., including a potential sale or initial public offering.

The transaction is subject to the approval of the relevant authorities.

Contribution to SRF

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

Asset quality review and results of stress tests

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

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

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

- under the adverse scenario, Banco Santander's fully loaded CET1 ratio as of 31 December 2018 decreases 1.99%, to 8.2%, from the starting point of 10.2% as of 31 December 2015. In this adverse scenario, the CET1 ratio subject to Basel III transitional arrangements (phase-in) is 8.7% as of 31 December 2018, which implies a decrease of 4.02% from the starting 12.7%, due to the progressive coming into force of Basel III transitional deductions (2.03%); and
- under the baseline scenario, Banco Santander's fully loaded CET1 ratio increases 2.99%, to 13.2%. With phase-in criteria, the CET1 ratio increases 0.53%.

SREP Prudential Minimum Requirements

On 29 November 2016, the Issuer announced that it had been informed by the ECB on its decision regarding prudential minimum capital requirements for 2017, following the results of the SREP. The decision requires that the Issuer maintains a CET1 ratio of at least 7.75% on a consolidated basis. This requirement compares to Santander's last reported consolidated CET1 ratio of 12.44% as of 30 September 2016. This CET1 capital requirement includes: the minimum Pillar 1 requirement (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.25%); and the requirement deriving from its consideration as a G-SII (0.5%).

Capital Increases

As of 31 December 2014, the Issuer's capital had increased by 1,250,994,171 shares, or 11.04% of its total capital as of 31 December 2013, to 12,584,414,659 shares as a result of the following transactions:

- *Scrip Dividend*: On 30 January 2014, 29 April 2014, 30 July 2014 and 5 November 2014, the Bank issued 227,646,659 shares, 217,013,477 shares, 210,010,506 shares and 225,386,463 shares (2.01%, 1.88%, 1.78%, and 1.82% of the share capital, respectively), giving rise to capital increases of €113,823,329.50, €108,506,738.50, €105,005,253 and €112,693,231.50, respectively.
- *Acquisition of non-controlling interests in Santander Brazil:* On 4 November 2014 the Bank issued 370,937,066 shares (3.27% of the share capital) giving rise to a capital increase of €185,468,533.

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

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

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

Other Recent Events

Interim dividends

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

On 4 November 2016, the Bank announced that the holders of 89.11% of the bonus share rights have chosen to receive new shares. Thus, the definitive number of ordinary shares of €0.50 of face value issued in the free-of-charge capital increase is 147,848,122, corresponding to 1.02% of the share capital, and the amount of the capital increase is €73,924,061. After the free-of-charge capital increase, the share capital amounts to €7,291,170,350.50 represented by 14,582,340,701 ordinary shares of €0.50 of face value each. The value of the compensation corresponding to the holders of bonus share rights who have requested new shares amounts to €578,825,397.63. The shareholders holding the remaining 10.89% of the bonus share rights have accepted the irrevocable commitment to purchase bonus share rights assumed by Banco Santander. Consequently, Banco Santander has acquired 1,571,705,815 rights for a total gross consideration of €70,726,761.68. Banco Santander has waived the bonus share rights so acquired.

On 20 December 2016, the Bank announced that on 1 February 2017 it will pay a third interim dividend out of 2016 profit, for a gross amount of €0.055 per share. The last day to trade shares with a right to collect this dividend is 27 January 2016. The ex-dividend date will be 30 January 2017.

Business Overview

Principal activities

As of 31 December 2015, the Group had a market capitalisation of €65.8 billion, shareholders' equity of €88.0 billion and total assets of €1,340.3 billion. The Group had €1,050.0 billion in customer funds under management at that date. As of 31 December 2015, the Group had 58,049 employees and 5,548 branch offices in Continental Europe, 25,866 employees and 858 branches in the United Kingdom, 89,819 employees and

5,841 branches in Latin America, 18,123 employees and 783 branches in the United States and 2,006 employees in Corporate Activities.

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

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

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

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

The reported segments are:

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

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

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

In addition to these operating units, which cover everything by geographic area and business, the Group continues to maintain a separate Corporate Centre area. This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, as well as management of liquidity and of shareholders' equity through issuances. As the Group's holding entity, the Corporate Centre area manages all capital and reserves and allocations of capital and liquidity. It also incorporates the goodwill's impairment but not the costs related to the Group's central services except for corporate and institutional expenses related to the Group's functioning. Finally, the Group also include in this area significant Group one-offs.

First level (or geographic)

Continental Europe

Continental Europe includes all activities carried out in this region: Retail Banking and Santander Global Corporate Banking. During 2015, there were four main units within this area: Spain, Portugal, Poland and Santander Consumer Finance. Additionally, this area includes the Real Estate Operations in Spain unit.

Continental Europe is the largest business area of the Santander Group by assets. At the end of 2015, it accounted for 38% of total managed customer funds, 36% of total loans to customers and 28% of profit attributed to the Bank's total operating areas.

The area had 5,548 branches and 58,049 employees (direct and assigned) of which 3,196 were temporary employees, at the end of 2015.

In 2015, this segment obtained profit attributable to the Bank of €2,218 million, an increase of €571 million or 35% as compared to 2014, mainly due to improved interest income/(charges) (which increased by €489 million) and to the decrease of €892 million in impairment losses on financial assets. Return on equity ("**ROE**") stood at 7.1%.

Spain

The Group has a solid retail presence in Spain (3,467 branches) which is reinforced with global businesses in key products and segments (corporate banking, private banking, asset management, insurance and cards). The Group had a total of 24,216 employees (direct and assigned), all of which were hired on a full time basis.

In order to consolidate the Group's leadership in Spain and increase profitability and efficiency, Santander merged its two large retail networks (Santander and Banesto) and its private bank (Banco Banif, S.A.) in 2013.

The integration was completed in July 2014, ahead of schedule. All private banking clients were incorporated to Banco Banif, S.A.'s specialised customer attention model. The Group took advantage of the integration to optimise segmentation and specialisation of branches, with a particular emphasis on private banking, select and company banking, and increasing coverage in specialised portfolios to almost 100%.

In 2015, Spain grew by around 3.2% with a well-diversified base that made it possible to bring the unemployment rate down to around 21% by the end of the year. In addition, progress was made in correcting the imbalance in the public accounts while at the same time maintaining the foreign trade surplus. Energy prices kept inflation rates negative for a large part of the year, although the underlying rate remained positive.

Against this background, activity in Spain is well placed to accelerate its growth and build long-term relationships with its customers, in addition to boosting its business with SMEs and businesses, and maintaining its lead in big companies.

In 2015, profit attributable to the Bank in Spain was €977 million, a €150 million or 18% increase as compared to 2014, while the ROE was 8.1%.

Total income decreased by €556 million or 8% in 2015 in an environment of interest rates at historic lows and strong competition in loans (interest income/(charges) fell 5% compared to 2014) and a regulatory environment that hits net fees and commissions income (-6% compared to 2014). Gains/losses on financial assets and liabilities decreased by €250 million or 24% due to lower results in financial activity. Other operating income/(expenses) decreased by €53 million mainly due to the charges to the Deposit Guarantee Fund and Resolution fund.

There was a €63 million or 2% reduction in operating expenses as a result of the synergies achieved through the optimisation plans introduced. Loan losses provisions were €754 million or 43% lower than 2014 with the continuing process of normalisation in a more favourable economic cycle.

In 2015, Spain's loans and advances to costumers decreased by 1%, customer deposits decreased by 2% and other customer funds under management increased by 4%.

The NPL ratio was 6.53%, a 0.86% decrease as compared to 2014. The coverage ratio increased from 45% in 2104 to 48% in 2015.

Portugal

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

On 21 December 2015, the Bank of Portugal selected Santander Totta to acquire most of the assets and liabilities of Banif for €150 million. With this transaction, which evidences the commitment to the economic development of Portugal, Santander Totta became the second largest private bank in the country with a market share in loans and deposits of over 14%.

At the end of 2015, Portugal had 752 branches and 6,568 employees (direct and assigned), of which 62 employees were temporary.

The Portuguese economy continued to recover in 2015. The growth of gross domestic product ("**GDP**") accelerated to a rate of 1.5% compared with 0.9% in 2014. The recovery benefited from the ECB's expansive monetary policy and the positive effect it had on spreads and the euro exchange rate. The country's economic fundamentals continued to improve, the rate of unemployment fell for the last three years and the current account balance remained positive.

In 2015, the strategy was very focused on managing interest rates for loans and deposits, gaining market share particularly in companies, controlling NPL and improving efficiency

In 2015, profit attributable to the Bank was €300 million, a €116 million or 63% increase from 2014. There was a growth of €60 million or 6% in total income, with an increase of €9 million in interest income/(charges) due to the improvement in the cost of funding, and in gains/losses on financial assets and liabilities with an increase of €77 million mainly due to sales of government debt securities.

Operating expenses fell €3 million or 1% due to the optimisation of the commercial network in line with the business environment.

Loan losses provisions were down by €52 million or 42% due to the decrease in net additions to delinquent balances.

In 2015, loans and advances to customers and customer deposits increased by 22% and 21% respectively, due to the acquisition of Banif. Excluding Banif, lending's declining trend slowed in 2015 (-1% compared to -5% in 2014) and growth in loans to companies rose (+5%) compared to a fall in the market. Funds increased by 5%, under the strategy of boosting demand deposits (+37%) and mutual funds (+18%), while time deposits fell 7%. The result was a further improvement in the cost of deposits.

The year 2015 ended with an NPL ratio of 7.46%, as compared to 8.89% at the end of 2014. The coverage ratio stood at 99% compared to 52% in December 2014. The ROE stood at 12.4%.

Poland

At the end of 2015, Poland had 723 branches and 11,474 employees (direct and assigned), of which 1,269 employees were temporary.

The Polish economy grew strongly in 2015 (3.6%) with inflation at -1% well below the target of 2.5% set by the National Bank of Poland, which lowered the reference rates to 1.5% in March 2015. Noteworthy as the most positive factor was the significant improvement in the labour market, with steady creation of jobs and a substantial fall in unemployment to the lowest rate since 2008.

In 2015, profit attributable to the Bank was €300 million, €55 million or 15% lower than in 2014. Total income decreased by €99 million or 7% for the following reasons: (i) interest income/ (charges) decreased by €52 million impacted by the fall in interest rates which particularly affected the consumer finance rates due to the ceiling set by the Lombard rate, (ii) fees and commissions decreased by €13 million due to increased regulation mainly affecting the card business and (iii) Other operating income/(expenses) decreased by €80 million due to the one-time charge to the Deposit Guarantee Fund as a result of the failure of SK Wołomin Bank.

Furthermore, operating expenses increased by €9 million or 2% as compared to 2014 while Loan losses provisions were down by €18 million or 10% despite the increase in lending.

Loans and advances to customers and customer deposits increased by 12% and 7% respectively as compared to 2014, however the other customer funds under management decreased by 9% compared with 2014. The NPL ratio decreased by 1.12% to 6.30% and the coverage ratio increased by 4% to 64%. The ROE stood at 12.5%.

Santander Consumer Finance

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

The main European markets where business is conducted grew at between 1.7% and 3.5% in 2015.

In 2015, the management focuses were: (i) the integration of the GE Nordics businesses, (ii) the implementation of the agreements with PSA, and (iii) promoting new lending and cross-selling tailored to the situation in each market, supported by brand agreements.

The following agreements were entered into in 2014 and strengthen Santander Consumer Finance’s position in its markets: (i) the agreement with Banque PSA Finance (PSA Peugeot Citroën Group), (ii) the acquisition in Spain of 51% of Financiera El Corte Inglés, and (iii) the acquisition of GE Nordics (GE Money’s business in Norway, Sweden and Denmark). See “*—History and Development of the Issuer and the Group—Acquisitions, Dispositions, Reorganisations and Other Recent Events*”.

At the end of 2015, this unit had 588 branches and 14,533 employees (direct and assigned), of which 1,189 employees were temporary.

The Santander Consumer Finance units in Continental Europe operated in an environment of incipient recovery of both consumer spending and vehicle registrations (+9% year on year in the countries in which they operate). In 2015, Santander Consumer Finance continued to gain market share, supported by a business model that has been strengthened during the crisis thanks to a high level of geographical diversification with critical mass in key projects, high levels of efficiency, and a shared risk control and recovery system that makes it possible to maintain a high level of credit quality.

In 2015, this unit generated €938 million in Profit attributable to the Bank, a €143 million or 18% increase compared with 2014. This growth benefited from the impact of the previously mentioned agreements, with total income growing faster than operating expenses and Impairment losses on financial assets. Total income rose €742 million or 23% (interest income/charges increased €728 million or 31%), while operating expenses grew €306 million or 21%. Loan losses provisions declined €7 million or 1%, due to improved credit quality. Minority interests increased by €99 million as a result of the PSA agreements.

Loans and advances to customers increased by 22% and customer deposits increased by 6%. The NPL ratio decreased by 1.40% to 3.42%, while the coverage increased to 109% from 100% in 2014. The ROE stood at 12.0%.

Real Estate Operations in Spain

The segment, which has a specialised management model, combines (i) the run-off real estate activity in Spain, which includes loans to customers mainly for real estate promotion, where the Group's strategy focuses on a significant reduction of its exposure; (ii) quality real estate operating assets (mainly from the Group's old real estate fund, Santander Banif Inmobiliario); (iii) the Group's subsidiary Metrovacesa; and (iv) certain other assets such as the Group's stake in Spanish Bank Restructuring Asset Management Company, or SAREB (see note 8.b.ii to the Group's consolidated financial statements). As of the end of 2014, the stake in Metrovacesa was consolidated by global integration. See *"—History and Development of the Issuer and the Group— Acquisitions, Dispositions, Reorganisations and Other Recent Events— Metrovacesa, S.A.*"

The Group's strategy in recent years has been directed at reducing these assets, mainly loans and foreclosed assets. Net loans totalled €2,794 million, which was 33% less than in 2014 and accounted for 0.4% of the Group's loans and less than 2% of those of Santander Spain.

In 2015, this segment had €420 million of losses attributable to the Bank, a €232 million decrease in losses as compared to 2014, mainly due to the lower need for write-downs.

United Kingdom

As of 31 December 2015, the United Kingdom accounted for 31% of the total managed customer funds of the Group's operating areas. Furthermore, it accounted for 36% of total loans to customers and 24% of profit attributed to the Bank's total operating areas.

At the end of 2015, the Group had 858 branches and a total of 25,866 employees (direct and assigned), of which 661 employees were temporary, in the United Kingdom.

The UK economy continued to grow at 2.2%, registering another year of steady growth. The main driver was domestic demand (particularly private consumption, robust labour market, improved consumer confidence and favourable financial conditions) and a recovery in investment. The unemployment rate fell in the year to 5.2%, in part due to a large increase in self-employment. This pushed the number of people in employment to a record high. Inflation was around 0%, mainly due to lower oil and commodity prices and the consolidation of sterling's appreciation registered since mid-2013. Based on this, the Bank of England kept interest rates unchanged in 2015.

There have been significant changes recently, in terms of regulation, tax and public policy as well as a significant advance in the use of technology in banking, especially mobile. Additionally the impact of the new entrants and existing competitors who have renewed focus on the UK market opportunities. The Group's strategic direction has been fine-tuned, to align with the economic, regulatory and market environment changes. Based on the new scenario, the Group has focused on customer loyalty, on increasing the flows in retail and corporate segments and ongoing investment in business growth and in digital channels.

In 2015, Santander UK contributed €1,971 million of profit attributable to the Bank, a €415 million or 27% increase (14% excluding the exchange rate impact) from 2014. The main developments were: (i) a €708 million or 17% increase (5% excluding the exchange rate impact) in interest income/(charges) mainly due to higher volumes, (ii) a €302 million or 10% increase (a decrease of 1% excluding the exchange rate impact) in operating expenses due to investment in business growth, higher regulatory costs and the continued enhancements to the Group's digital channels and (iii) a €225 million or 68% (71% excluding the exchange rate impact) decrease in impairment losses on financial assets with improved credit quality across the loan portfolios, conservative loan-to-value criteria, and supported by a favourable economic environment.

As of 31 December 2015, loans and advances to customers increased by 13% (6% excluding the exchange rate impact), and customer deposits increased by 15% (8% excluding the exchange rate impact). Other customer funds under management were flat as compared to 2014. The NPL ratio decreased by 0.27% to 1.52% and the coverage ratio decreased to 38% from 42% in 2014. The ROE was 11.5%.

Latin America

As of 31 December 2015, the Group had 5,841 branches and 89,819 employees (direct and assigned) in Latin America, of which 1,794 were temporary employees. As of that date, Latin America accounted for 22% of the total managed customer funds, 17% of total loans to customers and 40% 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:

Subsidiary	**Percentage held at 31 December 2015**
Banco Santander (Brasil), S.A.	89.25
Banco Santander Chile	67.12
Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	75.07
Banco Santander de Negocios Colombia S.A.	99.99
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.

In Latin America the regional GDP shrank 0.4% in 2015 after the growth of 1.2% in 2014, in a complex international environment faced with the prospect of a rise in interest rates in the United States, the downturn of international trade, a drop in the price of commodities and the lower growth in China. There was very different performance country by country, with some in recession and others showing a gradual recovery. There was a slight upturn in inflation, mainly as a result of the effects of the depreciation of the Latin American currencies.

The Group continued to focus as a priority on strengthening customer relations by improving their experience and increasing their satisfaction. For this purpose, year 2015 saw the launch in the principal geographical areas of the "1|2|3 World" range of products that are designed to attract and engage private individual customers, and the Advance program, the aim of which is to strengthen the Bank's positioning with business customers.

Profit attributable to the Bank from Latin America in 2015 was €3,193 million, a €291 million or 10% increase as compared to 2014 (17% excluding the exchange rate impact). Total income increased by €198 million or 1% (10% excluding the exchange rate impact) driven by the growth of volumes and transactionality, which impacted both the interest income and the fees and commissions. Operating expenses increased by €56 million or 1%, however excluding the exchange rate impact they grew by 10% as a result of salary increase agreements in an environment of high inflation in countries such as Brazil, Argentina and Uruguay, dollar-indexed costs, and investments to develop the commercial and digital networks. The growth was moderate as compared to inflation rates. The change in lending mix towards products with a lower risk premium continued in 2015 and Impairment losses decreased by 1% as compared to 2014.

As of 31 December 2015, loans and advances to customers decreased by 5%, however excluding the exchange rate impact they increased by 14%. Customer deposits decreased by 7% as compared to 2014, however excluding the exchange rate impact they increased by 12%. The NPL ratio stood at 4.96% and the coverage ratio at 79% as of 31 December 2015.

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 3,443 branches and points of banking attention, 49,520 employees (direct and assigned), all of which were hired on a full time basis.

During the first quarter of 2015 Santander Brazil entered into an agreement to acquire Banco Bonsucesso ("**Bonsucesso**") to leverage activities in the payroll business, as well as increase the number of products offered and improve the distribution and marketing capacity.

Brazil went into recession in 2015, with contraction of consumer spending and private investment and rising unemployment. There was an upturn in inflation to over 10%. The central bank reinforced its commitment to control inflation by raising the Selic rate 250 basis points in the year, taking it to 14.25%.

In 2015, the Bank made progress in its process of transformation to simplify, modernise and improve the experience of customers, while agreements were also reached in order to increase the more transactional portion of the Bank's income.

Profit attributable to the Bank from Brazil in 2015 was €1,631 million, a €194 million or 13% increase (33% excluding the exchange rate impact) as compared to 2014. Total income fell by €739 million or 6% compared with 2014 (excluding the exchange rate impact it increased by 10%), mainly due to interest income/(charge).

Operating expenses decreased by €491 million or 10% (excluding the exchange rate impact they increased by 5%). Excluding the inflation and exchange rate impact and on a like-for-like basis, they fell by 6%, reflecting the efforts made in previous years to improve efficiency and productivity.

Loan losses provisions declined by €385 million or 10%, however excluding the exchange rate impact they increased by 5%.

During 2015, total loans and advances to customers decreased by 19% (8% excluding the exchange rate impact) mainly due to the forex impact on dollar portfolios and the acquisition of Bonsucesso. Customer deposits decreased by 17% as compared to 2014 (excluding the exchange rate impact they increased by 11%).

The NPL ratio was 5.98% as of 31 December 2015 compared with 5.05% as of 31 December 2014. The coverage ratio stood at 84% as of 31 December 2015. The ROE stood at 13.6%.

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 2015, it had 1,377 branches throughout the country, 17,847 employees (direct and assigned), of which 1,634 were temporary.

Mexico gave clear signs of improvement in the second half of the year driven by the recovery of both domestic demand and exports. Although the inflation rate remained low, the central bank decided to raise the official interest rate in response to the increase by the Federal Reserve, in order to prevent possible outbreaks of volatility given the country's strong commercial and financial connection with the United States.

2015 saw the completion of the branch expansion plan, following the opening of 200 branch offices in the last three years. The increase in installed capacity was accompanied by improvements in customer segmentation and sales platforms.

Profit attributable to the Bank from Mexico in 2015 was €629 million, a €22 million or 4% increase (3% excluding the exchange rate impact) as compared to 2014. The growth of €298 million or 10% in total income, was mainly driven by an increase of €313 million in interest income/(charge) due to the higher loans volume.

Operating expenses increased by €87 million or 7%, due to the greater installed capacity and new commercial projects to increase attraction and penetration in the customer base.

Loan losses provisions increased by €120 million or 16% due to greater lending volume.

As of 31 December 2015, loans and advances to customers increased by 17% (23% excluding the exchange rate impact), and customer deposits decreased by 1% (5% increase excluding the exchange rate impact). Other customer funds under management were flat as compared to 2014.

As of 31 December 2015, the NPL ratio decreased by 0.46% to 3.38% while the coverage ratio was 91%. The ROE was 12.9%.

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 2015, Banco Santander Chile had 472 branches and 12,454 employees (direct and assigned), all of which were hired on a full time basis.

The Chilean economy recovered in 2015 as a result of the expansion of investment and private consumer spending, which led the central bank to begin to normalise its monetary policy by raising the official interest rate 0.50% to 3.50%.

In 2015, more branches and exclusive select spaces for high-income customers were opened, as well as the new model of branch offices in the traditional network. The Group continued to pursue its strategy of increasing long-term profitability in a climate of smaller margins and greater regulation.

Profit attributable to the Bank from Chile in 2015 was €455 million, a €43 million or 9% decrease (13% excluding the exchange rate impact) decrease as compared to 2014, mainly due to lower inflation-indexed Unidad de Fomento, some regulatory impact, higher technology costs and higher tax pressure.

In 2015, customer loans increased by 6% (11% excluding the exchange rate impact) and customer deposits increased by 4% (9% excluding the exchange rate impact) as compared to 2014. Other customer funds under management increased by 2% as compared to 2014.

At 31 December 2015, the NPL ratio decreased by 0.35% to 5.62% while the coverage ratio was 54% and the ROE 15.32%.

Argentina

Banco Santander Río, S.A. (Argentina) is the country's leading private sector bank in terms of assets, loans and customer funds. At 31 December 2015, the Group had 436 branches and 7,952 employees in Argentina.

Argentina ended the year with an economy that was still weak and inflation that was among the highest in the region. In mid-December the new government announced the liberalisation of capital movements and the exchange rate of the Argentine peso began to float freely.

The Group's strategy in 2015 focused on increasing its penetration through its branch office expansion plan, the transformation towards a digital bank with the focus on efficiency and customer experience and the engagement of the customer segments of high-income private individuals and SMEs.

Profit attributable to the Bank was €378 million, a 29% increase (22% excluding the exchange rate impact) compared with 2014. The commercial strategy helped to push up total income by 34%, mainly due to the increase of interest income/ (charge) by 35% and fees and commissions by 46%. Operating expenses rose by 51% (43% excluding the exchange rate impact) because of the opening of new branches, the transformation and technology projects and the review of the salary increase agreement. Loan loss provisions increased by 22% (16% excluding the exchange rate impact), below the growth in lending.

During the year, lending and customer deposits increased by 10% and 15%, respectively. Nevertheless, in local currency lending rose by 52%, focused on lending to SMEs and companies and deposits increased by 58%. Mutual funds grew by 26% during 2015 (73% in local currency).

Uruguay

The Group maintained its leadership in Uruguay. The Group is the largest private sector bank in the country. Overall, the Group had 111 branches and 1,808 employees.

Inflation was 9.4%, well above the central bank's target of (+3% to 7%). The key rate remained high in order to converge toward this goal. The Uruguayan peso depreciated 20% against the dollar and 10% against the euro.

The Group continued focusing on growing in retail banking and improving efficiency and the quality of service.

Profit attributable to the Bank from Uruguay in 2015 was €70 million, a €20 million or 41% (38% excluding the exchange rate impact) increase as compared to 2014. Lending increased by 8%, with particular growth in individual customers and SMEs, and deposits rose by 19%, in each case compared with 2014.

Peru

As of 31 December 2015, Banco Santander Perú, S.A. had 1 branch and 156 employees. The unit's activity is focused on companies and on the Group's global customers. An auto finance company began to operate in 2013, together with a well-known international partner with considerable experience in Latin America. The company has a specialised business model, focused on service and with products that enable customers to acquire any brand of new car from any dealer in Peru.

Profit attributable to the Bank from Peru reached €32 million, a €10 million or 46% increase compared with 2014.

Colombia

Banco Santander de Negocios Colombia S.A. began operating in January 2014. The bank targets the corporate and business markets, with a special focus on global customers and local customers aiming to expand to gain international presence.

Colombia had a €1 million loss attributable to the Bank.

United States

At the end of 2015, the Group had 783 branches and a total of 18,123 employees (direct and assigned), none of them temporary.

The US economy grew at a modest but solid pace (2.5%). Thanks to the improving economy, the unemployment rate fell on a sustained basis to 5% at the end of the year, a level regarded as full employment. Inflation, however, remained low (1.3%) and at some distance from the Federal Reserve's target (set in terms of the underlying deflator of private consumption), which is 2%. In this context, the Fed raised its interest rates at the end of the year, accompanied by a message indicating the interest rate profile outlook would be moderate.

The US segment includes the holding entity SHUSA, Santander Bank, National Association, Banco Santander Puerto Rico, SCUSA, BSI, Santander Investment Securities Inc. and the Santander branch in New York.

Santander US continues to focus on several strategic priorities directed at enhancing its position and diversification, including: the implementation of a multi-year project to comply with regulatory requirements globally, the improvement of the governance structure, the setting up of local managerial team with wide experience in the management of large financial companies, the improvement of profitability at Santander Bank, National Association, and the optimisation of the vehicle finance business at SCUSA.

The US segment accounted for 9% of the total managed customer funds, 11% of total loans to customers and 8% of profit attributed to the Bank's total operating areas.

Profit attributable to the Bank decreased by €184 million (€352 excluding the exchange rate impact). Despite the increase in total income of €1,821 million or 30% (9% excluding the exchange rate impact), Profit attributable to the Bank was lower due to higher operating expenses by €786 million or 35% (13% excluding the exchange rate impact) and higher impairment losses of €858 million or 38% (16% excluding the exchange rate impact) relating to greater lending in SCUSA, and income taxes.

For 2015, ROE was 6.0% and the NPL ratio was 2.13%. The coverage ratio stood at 225% at year end.

***Second or business level*:**

Retail Banking

Retail Banking's profit attributable to the Bank in 2015 increased by 14% (10% excluding the exchange rate impact), to €6,854 million. This evolution was spurred by the good performance of total income which grew 7% (6% excluding the exchange rate impact). Operating expenses were 7% higher (1% excluding perimeter and in real terms) and loan loss provisions were 5% lower.

In 2015, Retail Banking generated 88% of the operating areas' total income and 85% of profit attributable to the Bank. This segment had 183,182 employees as of 31 December 2015.

In 2015 Santander continued to make progress with its program for transforming commercial banking focusing on the following:

- In order to gain greater knowledge of customers, progress is being made in improving analytical capabilities. A new commercial front has been developed for the branch offices in order to improve commercial productivity and customer satisfaction.
- In order to increase customer engagement and long-term relations, progress was made in 2015 in the launching and consolidation of differential value offerings. These included most notably (i) the "1|2|3 World" strategy (with the launch of proposals in other geographical regions such as Portugal, Spain and certain Latin America countries, after the success in the United Kingdom), (ii) integral offers launched in Chile with proposals which reward transactionality and increase customer benefits, (iii) the expansion of the Select value offering for high-income customers which is now available throughout the geographical regions, and (iv) the roll-out of the program for SMEs that combines a very attractive financial offering with non-financial solutions and that is now available in eight countries.
- The Bank made further progress with the development of its distribution models focused on digital channels, resulting in substantial improvements to the different channels, most notably with new apps, developments and functionalities for mobile phones in the various geographical areas and the new model of branch office in Spain and Brazil, which offers simpler procedures, more intuitive technology and differentiated areas within the branch.
- The Bank supports the internationalisation of its business customers by harnessing the synergies and international capabilities of the Group, thereby ensuring consistent and uniform customer relations throughout all the local units and enabling its customers to connect with each other and capture international trade flows with the Santander Trade Portal and the Santander Trade Club.

Santander Global Corporate Banking

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

Global Corporate Banking generated 12% of total income and 20% of the profit attributable to the Bank in 2015. This segment had 8,037 employees as of 31 December 2015.

Profit attributable to the Bank in 2015 was €1,626 million, an increase of €1 million as compared to 2014. This performance was impacted by an increase in interest income/(charges) (€349 million or 14%) offset by an increase in operating expenses (€218 million or 12%) and in impairment losses (€130 million or 22%).

Global Corporate Banking has three 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).

Real Estate Operations in Spain

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

Corporate Centre

Loss attributable to the Bank increased by €943 million as the increase in Interest income / (charges) and the decrease in provisions (net) was compensated by the decrease in gains from centralised management of risks and to a greater extent the drop in Gains/(losses) on other assets (net), as compared to 2014. At the end of 2015 this area had 2,006 employees.

The Corporate Centre is responsible for, on the one hand, a series of centralised activities to manage the structural risks of the Group and of the Bank. It executes the necessary activities for managing interest rates, exposure to exchange-rate movements and the required levels of liquidity in the Group. On the other hand, it acts as the Group's holding entity, managing the Group's global capital as well as that of each of the business units.

Within corporate activities, the financial management area conducts the global functions of balance sheet management, both structural interest rate and liquidity risk management (the latter via issuances and securitisations), as well as the structural position of exchange rates:

- Interest rate risk is actively managed by taking market positions to soften the impact of interest rate changes on net interest income, and is done via bonds and derivatives of high credit quality and liquidity and low consumption of capital.
- The objective of structural liquidity management is to finance the Group's recurring activity in optimum conditions of maturity and cost, maintaining an appropriate profile (in volumes and maturities) by diversifying the funding sources.
- Management of the exposure to exchange rate movements is also carried out on a centralised basis. This management (which is dynamic) is conducted through exchange-rate derivatives, seeking to optimise at all times the financial cost of hedging.

Hedging of net investments in the capital of businesses abroad aims to neutralise the impact on capital of converting into euros the balances of the Group's material subsidiaries that are consolidated and whose currency is not the euro.

The Group's policy seeks to mitigate the impact, which, in situations of high volatility in the markets, sudden changes in interest rates would have on these exposures of a permanent nature. At the end 2015, the Group's had €20,349 million hedged relating to its investments in Brazil, the UK, Mexico, Chile, the US, Poland and Norway and the instruments used were spot and foreign exchange forwards.

Exposures of a temporary nature – those regarding results that the Group's units will contribute in the next 12 months in non-euro currencies – are also managed on a centralised basis in order to limit their volatility in euros.

Meanwhile, and separately from the financial management described here, the Corporate Centre manages all capital and reserves and allocations of capital to each of the units, as well as providing the liquidity that some of the business units might need. The price at which these transactions are carried out is the market rate (EURIBOR or swap) plus a risk premium associated with the hold of the funds during the life of the transaction, which in terms of liquidity, the Group supports.

Lastly, and marginally, the equity stakes of a financial nature that the Group takes within its policy of optimising investments are reflected in the Corporate Centre.

The condensed balance sheet and income statements of the various geographical segments are as follows:

	Millions of euros						
	2015						
(Condensed) balance sheet	**Continental Europe**	**United Kingdom**	**Latin America**	**United States**	**Corporate Centre**	**Intra-Group eliminations**	**Total**
Total Assets	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Loans and advances to customers	287,252	282,673	133,139	84,190	3,594	-	790,848
Financial assets held for trading (excluding loans and advances)	60,151	40,138	33,669	2,299	2,656	-	138,913
Available-for-sale financial assets	60,913	12,279	25,926	19,145	3,773	-	122,036
Loans and advances to credit institutions	81,867	15,459	21,923	3,902	6,781	(50,980)	78,952
Non-current assets[1]	11,798	3,025	3,522	9,156	289	-	27,790
Other asset accounts	36,664	29,581	49,706	11,892	131,041	(77,163)	181,721
Total Liabilities and Equity	**538,645**	**383,155**	**267,885**	**130,584**	**148,134**	**(128,143)**	**1,340,260**
Customer deposits	263,462	231,947	122,413	60,115	5,185	-	683,122
Marketable debt securities	50,934	70,133	33,172	23,000	27,790	-	205,029
Subordinated liabilities	169	4,127	6,356	905	9,596	-	21,153
Liabilities under insurance contracts	626	-	1	-	-	-	627
Deposits from central banks and credit institutions	132,688	23,610	42,393	26,170	1,490	(50,980)	175,371
Other accounts[2]	58,253	36,162	43,872	9,073	18,012	-	165,372
Share capital, reserves, profit for the year and valuation adjustments	32,513	17,176	19,678	11,321	86,061	(77,163)	89,586
Other Customer funds under management	64,433	9,703	59,065	7,540	-	-	140,741
Investment funds	44,393	9,564	54,426	645	-	-	109,028
Pension funds	11,376	-	-	-	-	-	11,376
Assets under management	8,664	139	4,639	6,895	-	-	20,337
Customer funds under management[3]	378,998	315,910	221,006	91,560	42,571	-	1,050,045

(1) Including Tangible assets and Other intangible assets

(2) Including, in addition to liability items not broken down, the balances of Non-controlling interests

(3) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

	Millions of euros						
	2014						
(Condensed) balance sheet	**Continental Europe**	**United Kingdom**	**Latin America**	**United States**	**Corporate Centre**	**Intra-Group eliminations**	**Total**
Total Assets	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Loans and advances to customers	268,735	251,191	139,955	70,420	4,410	-	734,711
Financial assets held for trading (excluding loans and advances)	65,863	39,360	31,766	5,043	2,120	-	144,152
Available-for-sale financial assets	56,845	11,196	31,174	12,737	3,298	-	115,250
Loans and advances to credit institutions	66,602	14,093	22,104	3,460	2,858	(27,404)	81,713
Non-current assets[1]	11,796	2,700	3,912	6,905	796	-	26,109
Other asset accounts	26,757	35,695	39,577	9,469	127,893	(75,030)	164,361
Total Liabilities and Equity	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Customer deposits	256,909	202,328	131,826	51,304	5,260	-	647,627
Marketable debt securities	54,431	69,581	31,920	16,000	24,957	-	196,889
Subordinated liabilities	409	5,376	6,443	796	4,108	-	17,132
Liabilities under insurance contracts	713	-	-	-	-	-	713

	Millions of euros						
	2014						
(Condensed) balance sheet	Continental Europe	United Kingdom	Latin America	United States	Corporate Centre	Intra-Group eliminations	Total
Total Assets	**496,598**	**354,235**	**268,488**	**108,034**	**141,375**	**(102,434)**	**1,266,296**
Loans and advances to customers	268,735	251,191	139,955	70,420	4,410	-	734,711
Deposits from central banks and credit institutions	90,305	26,720	35,978	17,760	12,010	(27,404)	155,369
Other accounts[(2)]	64,305	34,888	39,945	10,542	17,610	-	167,290
Share capital, reserves, profit for the year and valuation adjustments	29,526	15,342	22,376	11,632	77,430	(75,030)	81,276
Other Customer funds under management	**60,679**	**9,667**	**62,488**	**8,535**	**-**	**-**	**141,369**
Investment funds	40,829	9,524	57,548	1,618	-	-	109,519
Pension funds	11,481	-	-	-	-	-	11,481
Assets under management	8,369	143	4,940	6,917	-	-	20,369
Customer funds under management[(3)]	**372,428**	**286,952**	**232,677**	**76,635**	**34,325**	**-**	**1,003,017**

(1) Including Tangible assets and Other intangible assets

(2) Including, in addition to liability items not broken down, the balances of Non-controlling interests

(3) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management

The Corporate Centre segment acts as the Group’s holding company. Therefore, it manages all equity (share capital and reserves of all the units) and determines the allocation thereof to each unit. The Group’s share capital and reserves are initially assigned to this segment, and is then allocated in accordance with corporate policies to the business units. This allocation is shown as an asset of the Corporate Centre segment (included in other asset accounts) and as a liability of each business unit (included in share capital, reserves, profit for the year and valuation adjustments). Therefore, the allocation is reflected in the balance sheet net of adjustments for intra-Group eliminations in order not to duplicate the balances and obtain the total consolidated balance sheet for the Group.

(Condensed) income statement	Millions of euros					
	2015					
	Continental Europe	United Kingdom	Latin America	United States	Corporate Centre	Total
INTEREST INCOME/(CHARGES)	**8,006**	**4,942**	**13,752**	**6,116**	**(4)**	**32,812**
Income from equity instruments	274	1		48	72	455
Income from companies accounted for using the equity method	120	10	[illegible]	[illegible]	(43)	375
Net fee and commission income (expense)	3,417	1,091	4,452	1,086	(13)	10,033
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,186	302	[illegible]	231	150	2,386
Other operating income (expenses)	(178)	37	[illegible]	316	(33)	(166)
TOTAL INCOME	**12,828**	**6,383**	**18,755**	**7,800**	**129**	**45,895**
Administrative expenses	(6,274)	(3,009)	(7,230)	(2,761)	(28)	(19,302)
Depreciation and amortization	(461)	(348)	[illegible]	(264)	(669)	(2,418)
Provisions (net)	(352)	(351)	[illegible]	(164)	(1,408)	(3,106)
Impairment losses on financial assets	(2,083)	(107)	(5,108)	(3,103)	(251)	(10,652)
Impairment losses on other assets	(172)	(9)			(931)	(1,092)
Other income and charges	(120)	5		16	243	22
OPERATING PROFIT /(LOSS) BEFORE TAX	**3,366**	**2,564**	**[illegible]**	**1,524**	**(2,915)**	**9,547**
Income tax	(887)	(556)	(1,219)	(517)	966	(2,213)
PROFIT FROM CONTINUING OPERATIONS	**2,479**	**2,008**	**[illegible]**	**1,007**	**(1,949)**	**7,334**
Profit (Loss) from discontinued operations		-			-	
CONSOLIDATED PROFIT FOR THE YEAR	**2,479**	**2,008**	**[illegible]**	**1,007**	**(1,949)**	**7,334**
Attributable to non-controlling interests	261	37	[illegible]	329	145	1,368
PROFIT ATTRIBUTABLE TO THE PARENT	**2,218**	**1,971**	**[illegible]**	**678**	**(2,094)**	**5,966**

(Condensed) income statement	Millions of euros					
	2014					
	Continental Europe	United Kingdom	Latin America	United States	Corporate Centre	Total
INTEREST INCOME/(CHARGES)	**7,517**	**4,234**	**13,620**	**4,789**	**(613)**	**29,547**
Income from equity instruments	286	1	88	29	31	435
Income from companies accounted for using the equity method	(25)	9	283	4	(28)	243
Net fee and commission income (expense)	3,500	1,028	4,372	830	(34)	9,696
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,221	241	484	205	699	2,850
Other operating income (expenses)	5	28	(290)	122	(24)	(159)
TOTAL INCOME	**12,504**	**5,541**	**18,557**	**5,979**	**31**	**42,612**
Administrative expenses	(5,972)	(2,702)	(7,130)	(2,039)	(56)	(17,899)
Depreciation and amortization	(472)	(353)	(720)	(200)	(542)	(2,287)
Provisions (net)	(205)	(184)	(946)	(21)	(1,653)	(3,009)
Impairment losses on financial assets	(2,975)	(332)	(5,145)	(2,233)	(25)	(10,710)
Impairment losses on other assets	(156)	-	16	(12)	(786)	(938)
Other income and charges	(238)	3	113	46	2,986	2,910
OPERATING PROFIT /(LOSS) BEFORE TAX	**2,486**	**1,973**	**4,745**	**1,520**	**(45)**	**10,679**
Income tax	(639)	(416)	(1,053)	(439)	(1,171)	(3,718)
PROFIT FROM CONTINUING OPERATIONS	**1,847**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,961**
Profit (Loss) from discontinued operations	(26)	-	-	-	-	(26)
CONSOLIDATED PROFIT FOR THE YEAR	**1,821**	**1,557**	**3,692**	**1,081**	**(1,216)**	**6,935**
Attributable to non-controlling interests	174	1	790	219	(65)	1,119
PROFIT ATTRIBUTABLE TO THE PARENT	**1,647**	**1,556**	**2,902**	**862**	**(1,151)**	**5,816**

Following is the detail of revenue by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be recognised under Interest and similar income, Income from equity instruments, Fee and commission income, Gains/Losses on financial assets and liabilities (net) and Other operating income in the accompanying consolidated income statements for 2015 and 2014.

	Revenue (Millions of euros)					
	Revenue from external customers		Inter-segment revenue		Total revenue	
	2015	2014	2015	2014	2015	2014
Continental Europe	22,877	21,218	422	56	23,299	21,274
United Kingdom	11,150	9,091	416	1,204	11,566	10,295
Latin America	32,936	35,038	(776)	(441)	32,160	34,597
United States	9,364	7,791	157	30	9,521	7,821
Corporate Centre	(3,335)	3,656	6,643	7,323	3,308	10,979
Inter-segment revenue adjustments and eliminations	-	-	(6,862)	(8,172)	(6,862)	(8,172)
	72,992	**76,794**	-	-	**72,992**	**76,794**

Significant New Products and/or Activities

Marketing of Products and Services

Policies

As a result of the transformation of the compliance function into its new target operating model ("**TOM**"), the former reputational risk management office was renamed as the product governance and consumer protection office. Its responsibilities were extended to bolster the adequate control and oversight of product and service marketing risks, to foster transparency and a simple, personal and fair approach to customers in order to protect their rights, and to ensure that policies and procedures take the consumers' perspective into account. For this purpose, the functions listed below were established, based on two corporate frameworks and a set of policies that define the basic principles and rules of action in this area:

Frameworks:

- *Corporate marketing framework*: a uniform system for the marketing of products and services, aimed at minimising exposure to the risks and possible claims arising in all phases of the marketing process (validation, pre-sale, sale, monitoring).
- *Claims management framework*: a uniform system for the systematised management of the recording, control, management and analysis of the causes of claims, based on their various types; this makes it possible to identify the reasons *for* customer dissatisfaction, to provide suitable solutions for each case and to improve, where appropriate, the processes that gave rise to the claims.

Functions:

- To promote the adherence of the units to the above-mentioned corporate frameworks.
- To facilitate the functions of the corporate marketing committee by guaranteeing the proper validation, prior to its launch, of any new product or service proposed by any Group subsidiary or by the Bank.
- To safeguard the internal protection of consumers, with the aim of improving their relationships with the Group, by effectively promoting their rights and providing solutions to possible disputes, in

accordance with best practices through any channel, as well as by fostering consumers' financial knowledge. All these efforts are geared towards building lasting relationships with customers.

- To identify, analyse and control the fiduciary risk generated by the private banking, asset management and insurance businesses and the outsourced custody services for customers' financial instruments. Fiduciary risk is considered to be that arising from the management of financial instruments on behalf of customers.
- To compile, analyse, and report to the Group's governance bodies, the information required to conduct a proper analysis of product and service marketing risk and of claims risk, from a two-fold perspective: the possible impact on customers and on the Group, as well as on the monitoring of products and services throughout their life-cycle.
- To supervise the marketing and claims management processes in place at the subsidiaries, making proposals for improvements and monitoring the mitigating actions taken for the risks detected.

Principal Markets in which the Issuer competes

This primary level of segmentation, which is based on the Group's management structure, comprises five segments: four operating areas plus the Corporate Centre. The operating areas, which include all the business activities carried on therein by the Group, are: Continental Europe, the United Kingdom, Latin America and the United States, based on the location of the Group's assets.

The Continental Europe area encompasses all the business activities carried on in the region. The United Kingdom area includes the business activities carried on by the various Group units and branches with a presence in the UK.

The Latin America area includes all the financial activities carried on by the Group through its banks and subsidiaries in the region.

The United States area includes the holding company SHUSA and the businesses of Santander Bank, SCUSA, Banco Santander Puerto Rico, BSI's specialised unit and the New York branch.

The Corporate Centre segment includes the centralised management business relating to financial investments, financial management of the structural currency position, within the remit of the Group's corporate asset and liability management committee, and management of liquidity and equity through issues.

The financial information of each operating segment is prepared by aggregating the figures for the Group's various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available in the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group.

Consequently, the sum of the various segment income statements is equal to the consolidated income statement. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the Intra-Group eliminations column in the tables on pages 92 to 95 above in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

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

Organisational Structure

Banco Santander, S.A. is the parent company of the Group which was comprised at 31 December 2015 of 782 companies that consolidate by the global integration method. In addition, there were 216 companies that were accounted for by the equity method.

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

Trend Information

There has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 30 June 2016 (being the date of the most recently published audited financial statements).

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

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

Economic and Industry Conditions

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

- changes in competition and pricing environments as a result of the progressive adoption of the internet for conducting financial services and/or other factors;

Political and Governmental Factors

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

Transaction and Commercial Factors

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

Operating Factors

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

Administrative, Management and Supervisory Bodies

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

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

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

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

Board of Directors	Position	Executive	Non-executive	Executive Committee	Audit Committee	Appointment Committee	Remuneration Committee	Risk Supervision, Regulation and Compliance Committee	International Committee	Innovation and Technology Committee	Date of first appointment
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive Chairman			**C**					**C**	**C**	04.02.1989
Mr. José Antonio Álvarez Álvarez	Chief Executive Officer										25.11.2014(1)
Mr. Bruce Carnegie-Brown	First Vice-chairman		**I**			**C**	**C**	**C**			25.11.2014(2)
Mr. Matías Rodríguez Inciarte	Second Vice-chairman										07.10.1988
Mr. Guillermo de la Dehesa Romero	Third Vice-chairman		**E**								24.06.2002
Mr. Rodrigo Echenique Gordillo	Fourth Vice-chairman										07.10.1988
Mr. Ignacio Benjumea Cabeza de Vaca	Member		**E**								30.06.2015(3)
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Member		**P**								25.07.2004
Mr. Sol Daurella Comadrán	Member		**I**								25.11.2014(4)
Mr. Carlos Fernández González	Member		**I**								25.11.2014
Ms. Esther Giménez-Salinas i Colomer	Member		**I**								30.03.2012
Ms. Homaira Akbari(5)	Member		**I**								27.09.2016
Mr. Belén Romana García	Member		**I**		**C**						22.12.2015
Mr. Isabel Tocino Biscarolasaga	Member		**I**								26.03.2007
Mr. Juan Miguel Villar Mir	Member		**I**								07.05.2013
General Secretary and of the Board: Mr. Jaime Pérez Renovales(6)	General Secretary and of the Board										

C: chairman; P: proprietary director; I: independent director; E: external director, nor proprietary nor independent

(1) With effect from 13 January 2015
(2) With effect from 12 February 2015
(3) With effect from 21 September 2015
(4) With effect from 18 February 2015
(5) Ms. Homaira Akbari was appointed as independent director by the board of directors ("*por cooptación*") on 27 September 2016 and her appointment is subject to ratification by the next shareholders' general meeting.
Mr. Ángel Jado Becerro de Bengoa resigned as member of the board in September 2016.
(6) Not director

Principal Activities Outside the Issuer

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

Name or corporate name of director	Name of listed company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	External Director
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	External Director
Mr. Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	External Vice Chairman
Mr. Rodrigo Echenique Gordillo*	Inditex, S.A	
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	External Director
	Enagás, S.A.	External Director
	Naturhouse Health, S.A.	External Director
Mr. Juan Miguel Villar Mir	Obrascón Huarte Lain, S.A.	Chairman (proprietary)
	Abertis Infraestrucuras, S.A.	Representative of OHL (proprietary vice chairman)
	Aviva plc	Representative of Grupo Villar Mir (proprietary vice chairman)
Ms. Belén Romana García	Aviva plc	External Director
Ms. Homaira Akbari	Acknowledge Partners	Chief Executive Officer
	Veolia	Director

*As of 31 December 2015, Mr. Rodrigo Echenique Gordillo was also non-executive chair of Vocento, S.A.

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

Conflicts of Interest

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

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

In 2014, the board, without the involvement of the interested party and following a favourable report by the remuneration committee, authorised the sale by the Bank, on an arm's-length basis, of 2,403,923 shares of MED 2001 Inversiones, SICAV, S.A. held by Mr. Ángel Jado Becerro de Bengoa (former member of the board as he resigned in September 2016) and companies in his family group.

In addition to the matter described above, in 2014 there were a further 136 occasions on which other directors abstained from participating in and voting on the deliberations of the meetings of the board of directors and its committees.

The breakdown of the 136 cases is as follows: 52 occasions related to proposals for the appointment, re-election or removal of directors or the grant of powers of attorney to them; 43 occasions related to the approval of remuneration conditions; on 27 occasions the subject of debate were proposals to provide funding or other risk transactions to companies related to various directors; five occasions referred to the procedure required of the Bank, as a credit institution, to assess the suitability of the members of the board of directors and the holders of key functions, pursuant to Royal Decree 1245/1995, as worded in Royal Decree 256/2013; on four occasions the abstention occurred in connection with the annual verification of the directors' status which, pursuant to Article 6.3 of the Rules and Regulations of the Board of Directors, was performed by the appointments committee under Article 17.4(g) of the Rules and Regulations of the Board of Directors, in order to ascertain whether the professional obligations of directors might interfere with the dedication required of them for the efficient discharge of their duties; one occasion related to the approval of a transaction with a related party; and one other occasion concerned the attendance of a director as a guest at board committee meetings after the director had ceased to be a member of the board.

The Audit Committee

The Audit Committee was created primarily in order to evaluate the systems in place for information control and accounts oversight, to safeguard the independence of the financial auditor and to review the control and compliance systems of the Issuer and the Group whilst reporting to the Board of Directors on its conduct and findings of these matters. The committee is composed of no less than three and no more than seven members (as of the date of this Prospectus there are four (4) members: Mr. Carlos Fernández González, Mr. Juan Miguel Villar Mir, Ms. Isabel Tocino Biscarolasaga and its chairwoman Ms. Belén Romana García; the secretary (not a member) is Mr. Jaime Pérez Renovales. Members of the Audit Committee are selected by the Board with reference to their knowledge, aptitude and experience in accounting, auditing and risk management matters. All the current members of the Audit Committee are external and independent. The Audit Committee must be chaired by an independent member of the Board who must have knowledge and experience in accounting, auditing and risk management. Since 26 April 2016, the audit committee is chaired by Ms. Belén Romana García, while Mr. Juan Miguel Villar-Mir, the previous chairman, remains a member of such committee.

Banco Santander complies with the Spanish corporate governance regime. The Issuer has included in its 2015 annual corporate governance report, which can be found on the website of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) ("**CNMV**") (www.CNMV.es), a detailed explanation of its compliance with the various recommendations on corporate governance.

On 25 May 2016, after obtaining the Bank of Spain's authorisation, the changes to the Bank's bylaws, which had been approved by the ordinary general shareholders meeting held on 18 March 2016, were registered in the Mercantile Registry of Cantabria. Banco Santander's shareholders resolved to amend its bylaws to conform them to: (i) certain amendments of the Spanish Companies Law, introduced by Law 15/2015 of 2 July on Voluntary Jurisdiction and Law 22/2015 of 20 July on the Audit of Financial Statements; and (ii) the recommendations of the new good governance code of listed companies, approved by resolution of the board of the CNMV on 18 February 2015 which replaces the unified good governance code of listed companies of 2006. Additionally, certain amendments seek to introduce greater flexibility in the bylaws regarding the composition of the committees of the board.

At the meeting held on 28 June 2016, the board of directors resolved to amend the Rules and Regulations of the Board of Directors to adapt them to the changes to the bylaws approved by the ordinary general shareholders meeting held on 18 March 2016 and to the developments on corporate governance matters introduced by the new good governance code for listed companies to improve corporate governance practices. The aims of these amendments include the following:

- to incorporate in the Rules and Regulations of the Board of Directors the recommendation of the new good governance code for listed companies that independent directors should represent at least 50% of the Board, although the Bank has already been complying with this recommendation;

- to adapt the regulation on the audit committee to article 529 quaterdecies of the Spanish Companies Law in the wording given by Law 22/2015 of July 20 on the Audit of Financial Statements (in line with the amendments made to the bylaws);
- to state expressly, in line with the recommendations of the new good governance code for listed companies, that the chairman of the board should report on the most significant aspects of the Bank's corporate governance at the general meetings;
- to adjust the Bank's practice to the provisions relating to the convening of meetings of the board and its committees, and the sending of the relevant documentation;
- to allow more flexibility in the membership of board committees, increasing the maximum number of members to nine (in line with the amendments made to the bylaws); and
- to introduce improvements with regard to technical aspects and wording in certain provisions, including:
  a) regulation of the powers of the board and its committees to seek the assistance of experts, stipulating a general provision to all these bodies that they should verify that there are no conflicts of interest that might prejudice the independence of the advice; and
  b) regulation of the obligations of the directors arising from their duty of loyalty, amending the requirement to report holdings in companies that compete with the Bank to comply with the legislation in force.

These amendments to the Rules and Regulations of the Board of Directors were executed in a public deed executed on 1 July 2016 and registered in the Cantabria Mercantile Registry on 11 July 2016.

Both documents are available on the Group's website (www.santander.com).

Governance and organisation

Decisions relating to all structural risks, including liquidity and funding risk, are made though local ALCOs in coordination with the Global ALCO.

The Global ALCO is the body empowered by the board of directors of Banco Santander to coordinate the asset and liability management ("**ALM**") function throughout the Group, including the management of liquidity and funding, which is carried out by the local ALCOs in accordance with the corporate ALM framework.

The Global ALCO is presided over by the Bank's chair and its members are an executive deputy chairman (who, in turn, is the chairman of the executive risk committee), the CEO, the finance and risk executive vice presidents, and other executive vice presidents and heads of certain business and analysis units who perform advisory functions.

The liquidity risk profile and appetite aim to reflect the Group's strategy in conducting its business, which consists of structuring the balance sheet to render it as resilient as possible to potential liquidity stress scenarios. To this end, appetite metrics have been structured to reflect the application, on an individual basis, of the principles of the Group's management model, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios. Simultaneously, various scenario analyses are conducted considering the additional liquidity needs that could arise if certain very severe but highly unlikely events occur.

Major Shareholders

As of 30 September 2016, 1.21% of the Bank's share capital was held by members of the board of directors.

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

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

Legal and Arbitration Proceedings

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

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

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

Tax-related litigation

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

- Legal actions filed by Santander Brazil and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11727/2008, a provision having been recognised for the amount of the estimated loss.
- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8% and 10% from 1994 to 1998. No provision was recognised in connection with the amount considered to be a contingent liability.
- Legal actions filed by Banco Santander, S.A. (currently Santander Brazil) and other Group entities claiming their right to pay the Brazilian *Programa de Integração Social* ("**PIS**") and *Contribuição para o Financiamento da Seguridade Social* ("**COFINS**") social contributions only on the income from the provision of services. In the case of Santander Brazil, the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September 2007 the Federal Regional Court found in favour of Santander Brazil, but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On 23 April 2015, the Federal Supreme Court issued a decision granting leave for the extraordinary appeal filed by the Brazilian authorities with regard to the PIS contribution to proceed, and dismissing the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office in relation to the COFINS contribution. The Federal Supreme Court has not yet handed down its decision on the PIS contribution and, with regard to the COFINS contribution, on 28 May 2015, the Federal Supreme Court in plenary session unanimously rejected the extraordinary appeal filed by the Brazilian Public Prosecutor's Office, and the petition for clarification ("**embargos de declaraçao**") subsequently filed by the Brazilian Public Prosecutor's Office, which on 3 September admitted that no further appeals may be

filed. In the case of Banco ABN AMRO Real, S.A. (currently Santander Brazil), in March 2007 the court found in its favour, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Santander Brazil filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a program of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the program and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Santander Brazil partially availed itself of this program but only with respect to the legal actions brought by the former Banco ABN AMRO Real, S.A. in relation to the period from September 2006 to April 2009, and with respect to other minor actions brought by other entities in its Group. However, the legal actions brought by Banco Santander, S.A. and those of Banco ABN AMRO Real, S.A. relating to the periods prior to September 2006, for which a provision for the estimated loss was recognised, still persist.

- Santander Brazil and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL, as defined below) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognised in connection with the amount considered to be a contingent liability. There is no provision for the amount of estimate loss.

- Santander Brazil and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognised in connection with the amount considered to be a contingent liability.

- In addition, Santander Brazil and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. No provision was recognised in connection with the amount considered to be a contingent liability.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Santander Brazil in relation to income tax *Imposto de Renda de Pessoa Jurídica* ("**IRPJ**") and *Contribuição Social sobre o Lucro Líquido das Pessoas Jurídicas* ("**CSLL**") for 2002 to 2004. The tax authorities took the view that Santander Brazil did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Santander Brazil). Santander Brazil filed an appeal against the infringement notice at *Conselho Administrativo de Recursos Fiscais* (the Brazilian Tax Appeal Administrative Council, ("**CARF**")), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Santander Brazil filed an appeal against these procedures at CARF, which was partially upheld on 8 October 2013. This decision has been appealed at the higher instance of CARF (Tax Appeal High Chamber). In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortisation of the goodwill. Santander Brazil appealed against this infringement notice and the court found in its favour. The Brazilian tax authorities appealed against this decision at CARF. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognised in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. ("**DTVM**") (currently Produban Serviços de Informática S.A.) and Santander Brazil in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Santander Brazil to DTVM in 2000, 2001 and the first two months of 2002. The two entities appealed against the infringement notices at CARF, with DTVM obtaining a favourable decision and Santander Brazil an unfavourable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavourable decisions were obtained by Santander Brazil and DTVM on 12 and 19 June 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognised for the estimated loss.
- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A. (Brasil), as the successor by merger to ABN AMRO Brasil Dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005. The tax authorities questioned the tax treatment applied to a sale of shares of Real Seguros, S.A. made in that year. The aforementioned entity filed an appeal for reconsideration against this infringement notice. As the former parent of Santander Seguros S.A. (Brasil), Santander Brazil is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.
- In June 2013, the Brazilian tax authorities issued an infringement notice against Santander Brazil as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the "*incorporação de ações*" (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Santander Brazil acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Santander Brazil, issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Santander Brazil that were received and the acquisition cost of the shares delivered in the exchange. In December 2014, the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognised any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.
- In November 2014 the Brazilian tax authorities issued an infringement notice against Santander Brazil in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Santander Brazil, but accepting the amortisation performed after the merger. On the advice of its external legal counsel, Santander Brazil lodged an appeal against this decision at the Federal Tax Office and obtained a favourable decision in July 2015. This decision was appealed by Brazilian tax authorities at CARF which has found in their favour, appealing Santander Brazil to the Tax Appeal High Chamber of the CARF last November. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.
- Santander Brazil has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently SHUSA) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 in connection with a Trust created by SHUSA in relation to financing transactions carried out with an international bank. SHUSA considered that, in accordance with applicable tax legislation, it was entitled to recognise the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the final outcome of this legal action were to be favourable to the interests of SHUSA, the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. On 13 November 2015, the District Court Judge found in favour of SHUSA, ordering the amounts paid over with respect to 2003 to 2005 to be refunded. The US Government appealed the decision at the US Court of Appeals for the First Circuit and on 16 December 2016 said Court reversed the District Court's decision as to the economic substance of the Trust transaction and the foreign tax credits claimed for the Trust transaction, and remanded to the District Court for judgment on the refund claim and for a trial limited to the penalties issue. SHUSA is currently considering options available. The estimated loss relating to this litigation was provided for.
- The European Commission carried a state-aid investigation against Spain in 2007 in relation to article 12.5 of the former Spanish Tax Corporation Act. The Commission stated in Decision 2011/5/CE, 28 October 2009, in relation to acquisitions inside EU, and in Decision 2011/282/UE, 12 January 2011, in relation to acquisitions outside the EU, that the tax amortisation provided for in article 12.5 was considered an illegal state aid. These Decisions were appealed by Banco Santander and other companies at the General Court of the EU. In November 2014 the General Court annulled the Decisions, appealing the Commission this decision before the European Court of Justice. On December 2016, the European Court of Justice has found in favour of the Commission and has remanded the procedure to the General Court which will adopt a new decision that can be appealed, again, at the European Court of Justice. The Group, based on the advice of its external legal counsel has not recognised any provisions in connection with these proceedings as they are considered to be a contingent liability.

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

Non tax-related proceedings

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

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

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

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

  On 8 October 2010, the British Bankers' Association ("**BBA**"), the principal trade association for the UK banking and financial services sector, filed on behalf of certain financial institutions (which did not include Santander UK) an application for permission to seek judicial review against the FSA and the

FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The judicial review was heard in the courts in January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the proceeding brought by the BBA.

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

There was a fall in compensation payments in the first half of 2015 and an increase from the third quarter, in line with industry trends, with compensation remaining stable in the last quarter.

The FSA consultation papers of November 2015 were taken into account in order to calculate the provision in 2015. As a result of considering the contents of the consultation papers, an additional provision of GBP 450 million was recognised. This amount is based on a probable scenario of two years in which customers could make their claims and on the anticipated increase in the volume of claims due to the established two-year period.

As of 31 December 2015, the provision recognised in this connection totalled GBP 465 million.

The following table shows information on the total claims received up to 31 December 2015 and the resolution thereof:

(number of claims, in thousands)	**2015**	**2014**
Claims outstanding at the beginning of the period	20	14
Claims received [(1)]	251	246
Claims rejected as being invalid[(2)]	(195)	(194)
Resolved claims	(57)	(46)
Claims outstanding at the end of the period	**19**	**20**

(1) Includes rejected claims relating to customers that had never purchased PPI from Santander UK

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

The provision recognised at the end of 2015 represents the best estimate by Group management, taking into account the opinion of its advisers and of the costs to be incurred in relation to any compensation that may result from the redress measures associated with the sales of PPI in the UK. The provision was calculated on the basis of the following key assumptions resulting from judgments made by management:

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

These assumptions were based on the following information:

- a complete analysis of the causes of the claim, the probability of success, as well as the possibility that this probability could change in the future;
- activity recorded with respect to the number of claims received;
- level of compensation paid to customers, together with a projection of the probability that this level could change in the future;

- impact on the level of claims in the event of proactive initiatives carried out by the Group through direct contact with customers; and
- impact of the media coverage.

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

The most relevant factor for calculating the balance of the provision is the number of claims received as well as the expected level of future claims. The percentage of claims lost is calculated on the basis of the analysis of the sale process. The average cost of compensation is calculated in a reasonable manner as the Group manages a high volume of claims and the related population is homogenous. Group management reviews the provision required at each relevant date, taking into account the latest available information on the aforementioned assumptions as well as past experience.

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

On 3 August 2012, Delforca 2008 was declared to be in a position of voluntary insolvency by Barcelona Commercial Court no. 10, which had agreed as part of the insolvency proceeding to stay the arbitration proceeding and the effects of the arbitration agreement entered into by Banco Santander and Delforca 2008. The Arbitration Court, in compliance with the decision of the Commercial Court, agreed on 20 January 2013 to stay the arbitration proceedings at the stage reached at that date until a decision could be reached in this respect in the insolvency proceeding.

In addition, as part of the insolvency proceeding of Delforca 2008, Banco Santander notified its claim against the insolvent party with a view to having the claim recognised as a contingent ordinary claim without specified amount. However, the insolvency manager opted to exclude Banco Santander's claim from the provisional list of creditors and, accordingly, Banco Santander filed an ancillary claim, which was dismissed by a court decision on 17 February 2015. This decision also declared that Banco Santander had breached its contractual obligations under the framework financial transaction agreement it had entered into with Delforca 2008.

As part of the same insolvency proceeding, Delforca 2008. has filed another ancillary claim requesting the termination of the arbitration agreement included in the framework financial transactions agreement entered into by that party and Banco Santander in 1998, as well as the termination of the obligation that allegedly binds the insolvent party to the High Council of Chambers of Commerce (Spanish Arbitration Court). This claim was upheld in full by the court.

On 30 December 2013, Banco Santander filed a complaint requesting the termination of the insolvency proceeding of Delforca 2008. due to supervening disappearance of the alleged insolvency of the company. The complaint was dismissed by a decision handed down on 30 June 2014. A court order dated 25 May 2015 declared the end of the common phase of the insolvency proceeding and the opening of the arrangement phase. Banco Santander lodged an appeal against the court's decisions (i) to stay the arbitration proceeding and the effects of the arbitral award, (ii) to terminate the arbitration agreement, (iii) not to recognise the contingent claim and to declare a breach by Banco Santander and (iv) not to conclude the proceeding due to the non-existence of insolvency.

On 23 June 2015, Delforca 2008 submitted an arrangement proposal entailing the payment in full of the ordinary and subordinate claims.

In February 2016, notice was served on the Bank of another ancillary claim filed by Delforca 2008 and Mobiliaria Monesa, S.A. (parent of Delforca 2008) requesting the voidness of the enforcement of securities made by the Bank for a total sum of €57 million. This claim has been stayed on preliminary civil ruling grounds, until the abovementioned appeals are handed down.

On 19 April 2016, the Appellate Court decided in favour of Banco Santander in relation to the stay of the arbitration proceeding and the effects of the arbitral award, the termination of the arbitration agreement and the recognition of the contingent claim and the breach by Banco Santander. On 30 June 2016, the Appellate Court decided the insolvency proceeding should not conclude. Delforca 2008 appealed the decisions regarding the termination of the arbitration agreement and the recognition of the contingent claim and breach by Banco Santander to the Supreme Court. On 28 July 2016, Banco Santander filed a motion to stay the insolvency proceeding until these appeals are decided.

In addition, in April 2009 Mobilaria Monesa, S.A. (parent of Delforca 2008) filed a claim against Banco Santander at Santander Court of First Instance no. 5, claiming damages which it says it incurred as a result of the alleged unwarranted claim filed by the Bank against its subsidiary, reproducing the same objections as Delforca 2008. This proceeding has currently been stayed on preliminary civil ruling grounds, against which Mobilaria Monesa, S.A. filed an appeal which was dismissed by the Cantabria Provincial Appellate Court in a judgment dated 16 January 2014.

Lastly, on 11 April 2012, Banco Santander was notified of the claim filed by Delforca 2008, heard by Madrid Court of First Instance no. 21, in which it sought indemnification for the damage and losses it alleges it incurred due to the (in its opinion) unwarranted claim by the Bank. Delforca 2008 made the request in a counterclaim filed in the arbitration proceeding that concluded with the annulled award, putting the figure at up to €218 million. The aforementioned court has dismissed the motion for declinatory exception proposed by Banco Santander as the matter has been referred for arbitration. This decision was upheld in an appeal at the Madrid Provincial Appellate Court in a judgment dated 27 May 2014. The Group considers that the risk of loss arising as a result of these matters is remote and, accordingly, it has not recognised any provisions in connection with these proceedings.

- *Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil*: a claim was filed in 1998 by the association of retired Banespa employees ("**AFABESP**") on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the board of directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the board of directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court and, subsequently, at the Federal Supreme Court. The High Employment Court confirmed the judgment against the bank, whereas the Federal Supreme Court rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the Federal Supreme Court in plenary session.

- *Planos economicos*: Santander Brazil has been the subject of claims from customers, mostly depositors, and of class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation (*planos economicos*). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice set the limitation period for these class actions at five years, as claimed by the banks, rather than twenty years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the High Court of Justice and the Supreme Federal Court with which the matter is expected to be definitively settled. In August 2010, the High Court of Justice handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute of limitations period. Shortly thereafter, the Supreme Federal Court issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter.

- *Banco Occidental de Descuento litigation*: Proceeding under Criminal Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. ("**Banco Occidental de Descuento**") against the Bank for US$150 million in principal plus US$4.7 million in interests, upon alleged termination of an escrow contract. The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal lodged by Banco Occidental de Descuento, dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28 December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The appeal was dismissed in a Supreme Court judgment dated 24 October 2014. Banco Occidental de Descuento filed a motion for annulment against the aforementioned judgment which was dismissed in an order dated 2 December 2015. The complainant has stated that it will appeal. The Bank has not recognised any provisions in this connection.

- *Mediterráneo Hispa Group insolvency*: On 26 January 2011, notice was served on the Bank of an ancillary insolvency claim to annul acts detrimental to the assets available to creditors as part of the voluntary insolvency proceedings of Mediterráneo Hispa Group, S.A. at Murcia Commercial Court no. 2. The aim of the principal action is to request annulment of the application of the proceeds obtained by the company undergoing insolvency from an asset sale and purchase transaction involving €32 million in principal and €2.7 million in interest. On 24 November 2011, the hearing was held with the examination of the proposed evidence. Upon completion of the hearing, it was resolved to conduct a final proceeding. The Court dismissed the claim in full in a judgment dated 13 November 2013. The judgment was confirmed at appeal by the Murcia Provincial Appellate Court in a judgment dated 10 July 2014. The insolvency managers have filed a cassation and extraordinary appeal against procedural infringements against the aforementioned judgment.

- *Lehman Group litigation*: The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

  As of the date of this Prospectus, certain claims had been filed in relation to this matter. The Bank's directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, no provisions needed to be recognised in this connection.

- *Madoff Securities*: The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC by the US SEC took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity ("**Optimal Strategic**") subfund was €2,330 million, of which €2,010 million related to institutional investors and international private banking customers, and the remaining €320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors. At the date of this Prospectus, certain claims had been filed in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. Therefore, the risk of loss is considered to be remote or non-material.

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

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

  In view of this situation, Santander Totta took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

  After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Santander Totta that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013.

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

  On 29 November 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid. On 14 February 2014, Santander Totta answered the counterclaim, maintaining its arguments and rejecting the opposing arguments in its documents dated 29 November 2013.

  On 4 April 2014, the companies issued their replies to the Bank's documents. The preliminary hearing took place on 16 May 2014.

  The case was heard from 12 October to 10 December 2015. The judgment was handed down on 4 March 2016. The Court decided in favour of Santander Totta, on all requests submitted by it and against the transport companies on all requests made by them. It considered all nine swap contracts to be valid and binding. The companies have filed an appeal.

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

- *Processing fees in German consumer loan agreements*: Most of the German banking industry has been affected by two German Supreme Court decisions in 2014 in relation to processing fees in consumer loan agreements.

  In May 2014, the German Supreme Court held processing fees in loan agreements to be null and void. The Court subsequently handed down a ruling at the end of October 2014 extending from three to ten years the statute of limitation period on claims relating to old transactions. Therefore, any claims relating to processing fees paid between 2004 and 2011 became statute-barred in 2014. This situation gave rise to numerous claims at the end of 2014 which affected the income statements of banks in Germany.

Santander Consumer Bank AG stopped including these processing fees in agreements from 1 January 2013 and ceased charging these fees definitively at that date, before the Supreme Court handed down its judgment on the issue.

Provisions of approximately €465 million were recognised in 2014 to cover the estimated cost of the claims. In order to calculate the provision, the claims already received, as well as an estimate of those that could be received in 2015 (the year in which the period for making claims ends as they become statute-barred) were taken into account. The provisions recognised to cover the claims received were used progressively throughout 2014 and 2015.

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

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

With the information available to it, the Group considers that at 31 December 2016, it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations. The Bank 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.

Alternative Performance Measures

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

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

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

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

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

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

Terms relating to capitalisation measure information on the amount of equity per share, in accordance with the definition set out in the table below.

Profitability and efficiency

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

Credit risk

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

Capitalisation

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

- The averages included in the denominators of the RoE, RoTE, RoA and RoRWA are calculated taking 13 months from December to the preceding December in the case of data to December and 4 months from March to the preceding December in the case of first quarter data.
- The average that is included in the denominator of the cost of loans and receivables is calculated taking the last 12 months.
- The risk-weighted assets included in the denominator of the RoRWA are calculated according to the criteria defined in the CRR.

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

Set out below is the reconciliation of Alternative Performance Measures (in millions of euros, except for percentages) in the annual audited consolidated financial statements of the Santander Group (including the auditors' report thereon and notes thereto and the relevant Directors' report) as of and for the years ended December 2015 and December 2014 (the "**Annual Accounts**"). All Alternative Performance Measures in (i) the audited consolidated interim financial report and interim Directors' report for the Santander Group as of and for the six-month period ended 30 June 2016; (ii) the unaudited consolidated interim financial report and interim Directors' report for the Santander Group as of and for the nine-month period ended 30 September 2016; and (iii) the unaudited financial report of the Santander Group as of and for the twelve-month period ended 31 December 2016, are reconciled in the same manner as the corresponding Alternative Performance Measures in the Annual Accounts.

Profitability and efficiency	2015	2014
RoE	**6.6%**	**7.8%**
Profit attributed to the Group	5,966	5,816
Average net assets	90,221	75,047
RoTE	**10.0%**	**12.8%**
Profit attributed to the Group	5,966	5,816
(Average equity + reserves + retained profit + valuation adjustments (excluding minority interests) – goodwill – intangible assets)	59,734	45,601
RoA	**0.5%**	**0.6%**
Consolidated profit	7,334	6,935
Average total assets	1,345,657	1,203,260
RoRWA	**1.2%**	**1.3%**
Consolidated profit	7,334	6,935
Average of risk-weighted assets	603,000	549,475
Efficiency (including depreciation)	**47.3%**	**47.4%**
Operating costs	21,720	20,186
General administrative costs	19,302	17,899
Depreciation	2,418	2,287
Gross margin	45,895	42,612

Credit risk	2015	2014
NPL ratio	**4.4%**	**5.2%**
Non-performing loans and advances to customers and contingent liabilities (excluding country risk)	37,094	41,709
Non-performing loans and advances to customers	36,133	40,372
Other non-performing loans and advances (mainly contingent risks)(1)	961	1,337
Loans and receivables (total loans and advances to customers and contingent liabilities excluding country risk)	850,909	804,084
Loans and advances to customers	817,365	761,928
Other (mainly contingent risks) (1)	33,544	42,156
Coverage ratio	**73.1%**	**67.2%**
Provisions for impairment losses on loans and advances to customers and contingent liabilities (excluding country risk)	27,121	28,046
Provisions for loans and advances to customers	26,517	27,217
Other provisions (mainly for contingent risks) (1)	604	829
Non-performing loans and advances to customers and contingent liabilities (excluding country risk)	37,094	41,709
Cost of loans and receivables	**1.25%**	**1.43%**
Allocations to provisions for impairment of loans and receivables in last 12 months	10,108	10,562
Average of loans and receivables	806,284	737,253

Capitalisation	2015	2014
Shareholders' equity per share (euro)	**6,12**	**6,42**
Shareholders' equity	88,040	80,805
Own funds	102,402	91,663
Valuation adjustments (excluding minority interests)	(14,362)	(10,858)
Number of shares (deducting own shares)	14,434	12,584

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

Efficiency	2015 %	2015 Gross margin	2015 Operating expenses	2014 %	2014 Gross margin	2014 Operating expenses
Continental Europe	**52.50**	**12,830**	**6,736**	**51,50**	**12,504**	**6,444**
Spain	56.50	6,080	3,434	52.70	6,636	3,496
Santander Consumer Finance	44.70	3,965	1,744	45.50	3,224	1,468
Poland	46.50	1,276	594	42.50	1,376	585
Portugal	48.70	1,016	494	52.00	956	498
United Kingdom	**52.60**	**6,382**	**3,356**	**57.00**	**5,541**	**2,918**
Latin America	**42.10**	**18,757**	**7,906**	**42.30**	**18,557**	**7,851**
Brazil	40.00	11,140	4,452	41.60	11,879	4,942
Mexico	41.30	3,317	1,370	42.50	3,019	1,282
Chile	43.00	2,336	1,004	39.50	2,194	866
United States	**38.80**	**7,999**	**3,025**	**37.50**	**5,979**	**2,239**

ROE	2015 %	2015 Profit attributable to the Group	2015 Average equity	2014 %	2014 Profit attributable to the Group	2014 Average equity
Continental Europe	**7.13**	**2,218**	**31,113**	**5.82**	**1,647**	**28,318**
Spain	8.14	977	11,998	7.41	827	11,159
Santander Consumer Finance	12.09	938	7,799	11.05	795	7,194
Poland	12.53	300	2,397	16.04	355	2,213
Portugal	12.37	300	2,427	7.91	184	2,381
United Kingdom	**11.50**	**1,971**	**17,133**	**10.81**	**1,556**	**14,400**
Latin America	**14.70**	**3,193**	**21,714**	**14.30**	**2,902**	**20,247**
Brazil	13.64	1,631	11,957	12.32	1,437	11,672
Mexico	12.88	629	4,880	13.20	606	4,608
Chile	15.32	455	2,973	19.50	498	2,555
United States	**6.05**	**678**	**11,213**	**7.82**	**862**	**11,021**

NPL ratio	2015 %	2015 NPLs and advances to customers and contingent liabilities (excluding country risk)	2015 Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk)	2014 %	2014 NPLs and advances to customers and contingent liabilities (excluding country risk)	2014 Calculable risk (total loans and advances to customers and contingent liabilities excluding country risk)
Continental Europe	**7.27**	**23,355**	**321,395**	**8.88**	**27,526**	**310,008**
Spain	6.53	11,293	173,02	7.38	13,512	182,974
Santander Consumer Finance	3.42	2,625	76,688	4.82	3,067	63,654
Poland	6.30	1,319	20,951	7.42	1,405	18,920
Portugal	7.46	2,380	31,922	8.89	2,275	25,588
United Kingdom	**1.52**	**4,292**	**282,182**	**1.79**	**4,590**	**256,337**
Latin America	**5.00**	**7,512**	**151,302**	**4.80**	**7,767**	**161,937**
Brazil	5.98	4,319	72,173	5.05	4,572	90,572
Mexico	3.40	1,096	32,463	3.80	1,071	27,893
Chile	5.62	1,980	35,213	5.97	1,999	35,514
United States	**2.13**	**1,935**	**90,727**	**2.42**	**1,838**	**76,014**

Coverage	2015			2014		
	%	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)
Continental Europe	**64.17**	**14,987**	**23,355**	**57.20**	**15,744**	**27,526**
Spain	48.10	5,432	11,293	45.46	6,143	13,512
Santander Consumer Finance	109.10	2,864	2,625	100.09	3,070	3,067
Poland	63.97	844	1,319	60.34	848	1,405
Portugal	99.02	2,357	2,380	51.79	1,178	2,275
United Kingdom	**38.19**	**1,639**	**4,292**	**41.89**	**1,923**	**4,590**
Latin America	**79.00**	**5,932**	**7,512**	**84.50**	**6,560**	**7,767**
Brazil	83.73	3,616	4,319	95.39	4,361	4,572
Mexico	90.60	993	1,096	86.10	922	1,071
Chile	53.86	1,066	1,980	52.41	1,084	1,999
United States	**225.02**	**4,354**	**1,935**	**193.55**	**3,558**	**1,838**

TAXATION

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 Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes would be subject to higher costs, and the liquidity of the market for the Notes 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 Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

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

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw. Prospective holders of Notes 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 Notes.

Taxation in Spain

The following is a general description of certain Spanish tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes 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 Notes and receiving any payments under the Notes. 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.

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 Notes 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 Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25 of the IIT Law, and therefore must be included in the investor's IIT savings taxable base pursuant to the provisions of the aforementioned law and generally taxed at a flat rate of 19% on the first EUR 6,000; (ii) 21% from EUR 6,001 up to EUR 50,000 and 23% for any amount in excess of EUR 50,000 .

According to Section 44.5 of Royal Decree 1065/2007, and in the opinion of the Issuer, the Issuer will pay interest without withholding to individual Holders who are resident for tax purposes in Spain provided that the information about the Notes 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 Notes 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 Notes who are individuals resident in Spain for tax purposes.

Net Wealth Tax (Impuesto sobre el Patrimonio)

Individuals with tax residency in Spain are subject to Net Wealth Tax during the tax year 2017 to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Notes which they hold as at 31 December 2017, the applicable rates ranging between 0.2% and 2.5%. The Autonomous Communities may have different provisions on this respect.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. 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 Notes 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 each 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 Notes 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 Notes held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes or income obtained upon the transfer, redemption or repayment of the Notes may be subject to withholding tax at the generally applicable rate of 19%, if the Notes do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 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 Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the Notes in their taxable income for Spanish CIT purposes.

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 Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, 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 Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

(b) *With no permanent establishment in Spain*

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

In order for the exemption to apply, it is necessary to comply with certain information obligations relating to the Notes, in the manner detailed under "*—Information about the Notes in Connection with Payments*" as laid down in section 44 of Royal Decree 1065/2007. If these information obligations are not complied 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 Notes 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 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 Notes through a permanent establishment in Spain.

Net Wealth Tax (Impuesto sobre el Patrimonio)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject during the tax year 2017 to Net Wealth Tax, the applicable rates ranging between 0.2% and 2.5%.

However, non-Spanish resident individuals will be exempt from Net Wealth Tax in respect of the Notes which income is exempt from NRIT as described above.

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

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Notes by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant double tax treaty will apply.

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

Information about the Notes in Connection with Payments

As described above, interest and other income paid with respect to the Notes will not be subject to Spanish withholding tax unless the procedures for delivering to the Issuer the information described in Exhibit I of this 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 Notes must be submitted to the Issuer before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Notes (each, a "**Payment Date**") is due.

Such information comprises:

(a) the identification of the Notes with respect to which the relevant payment is made;

(b) the date on which the relevant payment is made;

(c) the total amount of the relevant payment;

(d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain.

In particular, the Fiscal Agent must certify the information above about the Notes by means of a certificate in the Spanish language, an English language form of which is attached as Exhibit I of this Prospectus.

In light of the above, the Issuer and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer on each Payment Date, such Issuer will withhold tax at the then-applicable rate, generally 19% from any payment in respect of the relevant Notes. 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 Fiscal Agent provides such information, the Issuer will reimburse the amounts withheld.

Prospective Holders of Notes should note that none of the Issuer or the Managers accepts any responsibility relating to the procedures established for the collection of information concerning the

Notes. Accordingly, none the Issuer or the Managers 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 Notes - 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 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 Fiscal 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 (...)[1], in the name and on behalf of (entity), with tax identification number (....)[1] 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 ....

[1] In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

Foreign Account Tax Compliance Act (FATCA)

Pursuant to certain provisions of the US 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, 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 Notes, such withholding would not apply prior to 1 January 2019 and Notes that are not treated as equity for US 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 unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION, SALE AND TRANSFER

Banco Santander, S.A. and Barclays Bank PLC as Structuring Advisors and Joint Lead Managers, HSBC Bank plc and Natixis as Joint Lead Managers and Bankia, S.A., Bankinter, S.A., DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Norddeutsche Landesbank –Girozentrale and UniCredit Bank AG as Co-Lead Managers (together, the "**Managers**") have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 27 January 2017, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe or procure subscribers for the Notes at 99.938 per cent. of their principal amount less certain commissions as agreed with the Issuer.

The Issuer has also agreed to reimburse each of the Managers in respect of certain of their expenses, and has agreed to indemnify each of the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made by the Issuer.

United States of America

Regulation S Category 2; TEFRA.

The Notes have not been or will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to or for the account or benefit of US persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until forty days after the completion of the distribution of the Notes, as certified to the Issue and Paying Agent or the Issuer by such Manager within the United States or to or for the account or benefit of US persons (the "**distribution compliance period**"), and such Manager will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to or for the account or benefit of US persons. Terms used in this paragraph have the meanings given to them by Regulations S.

The Notes are being offered and sold outside of the United States to non-US persons in reliance on Regulation S. In addition, until forty days after the commencement of the offering of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Note will also be subject to such further United States selling restrictions as the Issuer and the relevant Manager may agree.

United Kingdom

Each Manager has represented and agreed 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 Financial Services and Markets Act 2000 (as amended, "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; 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 Notes in, from or otherwise involving the United Kingdom.

Spain

The Notes may not be offered, sold or distributed, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law, as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Notes.

Neither the Notes nor this Prospectus have been registered with the CNMV and therefore this Prospectus is not intended for any public offer of the Notes in Spain.

General

Each Manager has represented, warranted and agreed 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 Notes or possesses, distributes or publishes this Prospectus or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

GENERAL INFORMATION

1 Listing

Application has been made to the ISE for the Notes to be admitted to the Official List and trading on the Main Securities Market of the ISE. It is expected that listing of the Notes will take place and that dealings in the Notes on the Main Securities Market of the ISE will commence on or about 9 February 2017. The Issuer has appointed A&L Listing Limited as Irish listing agent with its address at 33, International Financial Services Centre, North Wall Quay, Dublin 1, Ireland.

The estimated expenses related to admission to trading will be approximately €4,790.

2 Authorisations and approvals

The Issuer has obtained all necessary resolutions, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes has been authorised by i) the general shareholders' meeting of the Issuer on 18 March 2016, (ii) the board of directors of the Issuer on such same date and (iii) the executive committee of the Issuer on 23 January 2017.

3 Significant change in the Issuer's financial or trading position

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

4 Independent auditors

The consolidated annual financial statements of the Issuer as of and for the years ended 31 December 2015 and 31 December 2014 have been audited without qualification by the independent auditors, Deloitte, S.L.

Deloitte, S.L. is registered under number S0692 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*) and is a member of the *Instituto de Censores Jurados de Cuentas de España*. The address of Deloitte, S.L. is Plaza Pablo Ruiz Picasso, 1, Madrid.

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

The consolidated interim financial report of the Santander Group as of and for the six-month period ended 30 June 2016 has been audited without qualification by the independent auditors, PricewaterhouseCoopers Auditores, S.L.

PricewaterhouseCoopers Auditores, S.L. is registered under number S0242 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*) and is member of the *Instituto de Censores Jurados de Cuentas de España*. The registered office of PricewaterhouseCoopers Auditores, S.L. is Torre PwC, Paseo de la Castellana 259 B, 28046, Madrid, Spain.

5 Third party information

The Issuer confirms that where information herein has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

6 Documents on Display

For so long as any of the Notes are outstanding, the following documents (together with English translations, where applicable) may be inspected during normal business hours. by physical or electronic means, at the registered office of the Issuer and at the office of the Fiscal Agent:

(i) bylaws (*estatutos*) of the Issuer; and

(ii) the information incorporated by reference herein under "*Documents Incorporated by Reference*".

The documents listed in (i) and (ii) above shall also be published in electronic form (pdf copies) on the website of Banco Santander (www.bancosantander.com).

7 Material Contracts

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

8 Clearing of the Notes

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg entities (which are the entities in charge of keeping the records) with a Common Code of 155726822. The International Securities Identification Number (ISIN) for the Notes is XS1557268221. 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.

9 Managers transacting with the Issuer

Each Manager and its 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/or its affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, each Manager and its 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 Managers or their affiliates which have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Manager 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 Notes. Any such positions could adversely affect future trading prices of the Notes. Each Manager and its 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.

ISSUER

Banco Santander, S.A.
Paseo de Pereda 9-12
39004 Santander
Spain

FISCAL AGENT AND PAYING AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

STRUCTURING ADVISORS AND JOINT LEAD MANAGERS

Banco Santander, S.A.
Gran Vía de Hortaleza 3
28033 Madrid
Spain

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

JOINT LEAD MANAGERS

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Natixis
30 avenue Pierre Mendès
75013 Paris
France

CO-LEAD MANAGERS

Bankia, S.A.
Paseo de la Castellana 189
28046 Madrid
Spain

Bankinter, S.A.
Paseo de la Castellana 29
Madrid, 28046
Spain

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
Platz der Republik
60265 Frankfurt am Main
Federal Republic of Germany

Norddeutsche Landesbank – Girozentrale
Friedrichswall 10
D-30159 Hannover
Federal Republic of Germany

UniCredit Bank AG
Arabellastrasse 12
D-81925 Munich
Germany

LEGAL ADVISERS

To the Issuer as to English law and as to Spanish law:

Linklaters, S.L.P.
Almagro 40
28010 Madrid
Spain

To the Managers as to English law and as to Spanish law:

Allen & Overy
Pedro de Valdivia 10
28006 Madrid
Spain

INDEPENDENT AUDITORS

To the Issuer for 2014 and 2015:

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
Spain

To the Issuer for 2016:

PricewaterhouseCoopers Auditores, S.L.
Torre PwC
Paseo de la Castellana, 259 B
28046 Madrid
Spain