THIS OFFERING CIRCULAR IS NOT FOR DISTRIBUTION IN THE UNITED STATES AND MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S (REGULATION S) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT)) AND ARE OUTSIDE OF THE UNITED STATES.

This Offering Circular is being distributed for information only and is subject to completion and amendment. This Offering Circular shall not, and is not intended to, constitute or contain an offer or invitation to sell or the solicitation of an offer to buy, and may not be used as, or in connection with, an offer or invitation to sell or a solicitation to but any of the Preferred Securities in any jurisdiction in which it is unlawful to do so. It is an advertisement and does not comprise a prospectus for the purposes of EU Directive 2003/71/EC or otherwise. The definitive terms of the transactions described herein will be described in the final version of this document. Investors should not subscribe for any securities referred to herein except on the basis of information contained in the final form of the Offering Circular.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached Offering Circular following this notice (the **Offering Circular**), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Circular. In reading, accessing or making any other use of the Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Offering Circular, including any modifications made to them from time to time, each time you receive any information from Banco Santander, S.A. (the **Bank**) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE PREFERRED SECURITIES OR ANY COMMON SHARES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE PREFERRED SECURITIES AND THE COMMON SHARES TO BE ISSUED AND DELIVERED IN THE EVENT OF ANY CONVERSION HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE PREFERRED SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FORM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THIS OFFERING CIRCULAR IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THIS OFFERING CIRCULAR AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS FALLING WITHIN ARTICLE 12, ARTICLE 19(5) OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR TO OTHER PERSONS TO WHOM THIS OFFERING CIRCULAR MAY OTHERWISE BE DISTRIBUTED WITHOUT CONTRAVENTION OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, OR ANY PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Preferred Securities described herein, each prospective investor in respect of the Preferred Securities must be a non-U.S. person outside the United States. By accessing, reading or making any other use of the Offering Circular, you shall be deemed to have represented to the Joint Lead Managers (as defined in the Offering Circular) that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a non-U.S. person outside the United States, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is not located in the United States of America, its territories and its possessions any state of the United States and the District of Columbia (3) you consent to delivery by electronic transmission, (4) you will not transmit the attached Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Preferred Securities.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Bank in such jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Preferred Securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Preferred Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this Offering Circular.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, the Bank or any affiliate of either of them, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Joint Lead Managers and the Bank to inform themselves about, and to observe, any such restrictions.

Offering Circular dated 9 May 2014

BANCO SANTANDER, S.A.

(incorporated with limited liability under the laws of Spain)

U.S.$1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible

Perpetual Preferred Tier 1 Securities

Issue Price: 100 per cent.

The U.S.$1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of U.S.$200,000 liquidation preference each (the "**Preferred Securities**") are being issued by Banco Santander, S.A. (the "**Bank**", the "**Issuer**" or "**Banco Santander**") on 19 May 2014 (the "**Closing Date**"). The Bank and its consolidated subsidiaries are referred to herein as the "**Group**" or as the "**Santander Group**".

The Preferred Securities will accrue non-cumulative cash distributions ("**Distributions**") (i) in respect of the period from (and including) the Closing Date to (but excluding) 19 May 2019 (the "**First Reset Date**") at the rate of 6.375 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate per annum equal to the aggregate of 4.788 per cent. per annum (the "**Initial Margin**") and the 5-year Mid-Swap Rate for the relevant Reset Period. Subject as provided in the terms and conditions of the Preferred Securities (the "**Conditions**"), such Distributions will be payable quarterly in arrear on 19 February, 19 May, 19 August and 19 November in each year (each a "**Distribution Payment Date**").

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

In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank ("**Common Shares**") at the Conversion Price. In the event of the liquidation of the Bank, prior to the occurrence of a Trigger Event, Holders will be entitled to receive (subject to the limitations described in the Conditions), in respect of each Preferred Security, their respective liquidation preference of U.S.$200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the liquidation distribution.

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

The Preferrred Securities are expected to be rated Ba2 by Moody's Investors Service Limited ("**Moody's**"). The Issuer's long-term senior debt is currently rated investment grade by the major rating agencies—Baa1 by Moody's Investors Service España, S.A., BBB by Standard & Poor's Ratings Services ("**Standard & Poor's**") and BBB+ by Fitch Ratings Ltd ("**Fitch**") all of which with stable outlook.

Each of Standard & Poor's, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such each of Standard & Poor's, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "Risk Factors" beginning on page 14.

This Offering Circular does not comprise a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Prospectus Directive**"). Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange.

The Preferred Securities must not be offered, distributed or sold in Spain nor to Spanish Residents. No publicity of any kind shall be made in Spain.

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

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

Joint Bookrunners and Joint Lead Managers

Banco Santander, S.A.	**Crédit Agricole CIB**	**Deutsche Bank**
Goldman Sachs International	**Morgan Stanley**	

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IMPORTANT NOTICES

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

This Offering Circular should be read and construed together with any documents incorporated by reference herein.

The Issuer has confirmed to Banco Santander, S.A., Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, Goldman Sachs International and Morgan Stanley & Co. International plc (together, the "**Joint Lead Managers**") that this Offering Circular contains all information which is (in the context of the issue, offering and sale of the Preferred Securities) 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 herein are honestly held or made and are not misleading in any material respect; that this Offering Circular 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 proper 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 or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

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

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

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

The distribution of this Offering Circular and the offering, sale and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

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

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

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

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular or incorporated by reference herein.

In connection with the issue of the Preferred Securities, Morgan Stanley (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securties is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

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

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

For ease of reference, the tables below set out the relevant page references for the consolidated annual accounts, the notes to the consolidated financial statements and the Auditors' reports for the years ended 31 December 2013, 2012 and 2011 for the Issuer, as set out in the respective auditors' reports and the unaudited consolidated interim financial information for the three months ended 31 March 2014 for the Issuer, as set out in the January-March 2014 Financial Report, prepared in each case in accordance with International Financial Reporting Standards as adopted by the European Union (except for the Form 20-F which are prepared in accordance with International Financial Reporting Standards as issued by the IASB). Any information not listed in the cross-reference tables but included in the documents incorporated by reference is either not relevant for prospective investors in the Preferred Securities or the relevant information is included elsewhere in this Offering Circular.

Issuer Annual Financial Information and Form 20-F

The tables below set out the relevant page references in the English language translations of the audit and annual accounts reports (*Informe de Auditoría y Cuentas Anuales*) of the Issuer for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 (the "**2013 Audit Report**", the "**2012 Audit Report**", the "**2011 Audit Report**", respectively) where the following information incorporated by reference in this Offering Circular can be found in the Bank's audit reports:

Information Incorporated by Reference in this Offering Circular	2013 Audit Report Page Reference
1. Auditor's report on Consolidated Financial Statements for the year ended 31 December 2013	4
2. Audited Consolidated Balance Sheets for the year ended 31 December 2013 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2012 and 31 December 2011	8-9
3. Audited Consolidated Statements of Income for the year ended 31 December 2013 and the comparative consolidated financial information of the Issuer for the years ended 31 December 2012 and 31 December 2011	10
4. Audited Consolidated Statements of recognised income and expense for the year ended 31 December 2013 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2012 and 31 December 2011	11
5. Audited Consolidated Statements of changes in equity for the year ended 31 December 2013 and the comparative consolidated cash flow statement of the Issuer for the year ended 31 December 2012 and 31 December 2011	12-13
6. Audited Consolidated Cash Flow Statements for the year ended 31 December 2013 and the comparative consolidated cash flow statement of the Issuer for the years ended 31 December 2012 and 31 December 2011	14
7. Notes to the Consolidated Financial Statements for the year ended 31 December 2013	15-225

Information Incorporated by Reference in this Offering Circular		2012 Audit Report Page Reference
1.	Auditor's report on Consolidated Financial Statements for the year ended 31 December 2012	9
2.	Audited Consolidated Balance Sheets at 31 December 2012, 2011 and 2010	14-15
3.	Audited Consolidated Income Statements for the years ended 31 December 2012, 2011 and 2010	16
4.	Audited Consolidated Statements of recognised income and expense for the years ended 31 December 2012, 2011 and 2010	17
5.	Audited Consolidated Statements of changes in total equity for the years ended 31 December 2012, 2011 and 2010	18-19
6.	Audited Consolidated Statements Cash Flows for the years ended 31 December 2012, 2011 and 2010	20
7.	Notes to the Consolidated Financial Statements for the year ended 31 December 2012	21-221

Information Incorporated by Reference in this Offering Circular		2011 Audit Report Page Reference
1.	Auditor's report on Consolidated Financial Statements for the year ended 31 December 2011	7
2.	Audited Consolidated Balance Sheets at 31 December 2011, 2010 and 2009	10-11
3.	Audited Consolidated Income Statements for the years ended 31 December 2011, 2010 and 2009	12
4.	Audited Consolidated Statements of recognised income and expense for the years ended 31 December 2011, 2010 and 2009	13
5.	Audited Consolidated Statements of changes in total equity for the years ended 31 December 2011, 2010 and 2009	14-15
6.	Audited Consolidated Statements of Cash Flows for the years ended 31 December 2011, 2010 and 2009	16
7.	Notes to the Consolidated Financial Statements for the year ended 31 December 2011	17-172

The table below sets out the relevant page references in the English language translations of the Financial Report for the first quarter of 2014 where the following information incorporated by reference in this Offering Circular can be found (the "**2014 January-March Financial Report**"):

Information Incorporated by Reference in this Offering Circular		2014 January-March Financial Report Page Reference
1.	Income Statement for the quarters ended 31 March 2014, 31 March 2013 and 31 December 2013	7
2.	Quarterly Income Statement for 2013 quarters and 2014 first quarter	8
3.	Balance Sheet at 31 March 2014, 31 March 2013 and 31 December 2013	11

The tables below set out the relevant page references in Form 20-F of the Issuer for the year ended 31 December 2013 ("**2013 Form 20-F**") and Form 20-F of the Issuer for the year ended 31 December 2012 ("**2012 Form 20-F**") where the following information incorporated by reference in this Offering Circular can be found:

Information Incorporated by Reference in this Offering Circular	2013 Form 20-F Page Reference
Report of Deloitte, S.L	F-1
Consolidated Balance Sheets at December 31, 2013, 2012 and 2011	F-2
Consolidated Income Statements for the years ended December 31, 2013, 2012 and 2011	F-3
Consolidated Statements of recognised income and expense for the years ended December 31, 2013, 2012 and 2011	F-4
Consolidated Statements of Changes in Total Equity for the years ended December 31, 2013, 2012 and 2011	F-5 to F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	F-8
Notes to the Consolidated Financial Statements for the year ended December 31, 2013	F-9 to F-349

Information Incorporated by Reference in this Offering Circular	2012 Form 20-F Page Reference
Report of Deloitte, S.L	F-1
Consolidated Balance Sheets at December 31, 2012, 2011and 2010	F-2
Consolidated Income Statements for the years ended December 31, 2012, 2011 and 2010	F-3
Consolidated Statements of recognised income and expense for the years ended December 31, 2012, 2011 and 2010	F-4
Consolidated Statements of Changes in Total Equity for the years ended December 31, 2012, 2011 and 2010	F-5 to F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010	F-8
Notes to the Consolidated Financial Statements for the year ended December 31, 2012	F-9 to F-337

OVERVIEW OF THE OFFERING

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

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

Issuer:	Banco Santander, S.A.
Risk Factors:	See "*Risk Factors*"
Issue size:	U.S.$1,500,000,000
Issue details:	U.S.$1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of U.S.$200,000 Liquidation Preference each. The Issuer has requested that the Preferred Securities qualify as Tier 1 Capital of the Bank and the Group pursuant to Applicable Banking Regulations.
Liquidation Preference:	U.S.$200,000 per Preferred Security
Use of Proceeds:	Banco Santander intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.
Distributions:	Distributions will accrue (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.375 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin (4.788 per cent. per annum) and the 5-year Mid-Swap Rate for such Reset Period. Subject as provided in the Conditions (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date. For further information, see Condition 3.
Limitations on Distribution:	The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that: (i) the Bank has insufficient Available Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items; and/or

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

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

No distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

Status of the Preferred Securities: Unless previously converted into Common Shares pursuant to Condition 5, the Preferred Securities are unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

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

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

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

For further information, see Condition 6.

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

	Conversion Price.
Conversion Price:	If the Common Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Current Market Price of a Common Share, translated into U.S. dollars at the Prevailing Rate, (ii) the Floor Price and (iii) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date), translated into U.S. dollars at the Prevailing Rate or (b) not then admitted to trading on a Relevant Stock Exchange, the conversion price will be the higher of (ii) and (iii) above. The Floor Price is subject to adjustment in accordance with Condition 5.3.
Liquidation Distribution	Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. If, before such liquidation, dissolution or winding-up of the Bank described above, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.
Purchases	The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.
Pre-emptive rights:	The Preferred Securities do not grant Holders preferential subscription rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.
Voting Rights:	The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the above, the Holders will have the right, under certain circumstances, to participate in the adoption of certain decisions in the General Meetings of Holders. For further information, see Condition 9.
Withholding Tax and Additional	Subject as provided in Condition 10.2, all payments of

Amounts:	Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Spain (as defined in Condition 10.1), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required. For further information, see Condition 10 and "*Taxation – Tax Treatment of the Preferred Securities — Reporting Obligations*" below.
Form:	The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.
Ratings:	The Preferred Securities are expected, on issue, to be assigned a Ba2 by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.
Governing Law:	The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom, Italy, Japan, Switzerland and Spain. Regulation S, category 2 restrictions under the Securities Act apply; TEFRA C. The Preferred Securities will not be eligible for sale in the United States under Rule 144A of the Securities Act.

RISK FACTORS

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

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

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

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

Macro-Economic Risks

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

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

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

In the past six years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many of the countries in which the Group operates fell into recession and some countries have only recently begun to recover and 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:

- Increased regulation of the Group's industry. Compliance with such regulation will increase the Group's costs and may affect the pricing for its products and services and limit the Group ability to pursue business opportunities.
- Reduced demand for the Group's products and services.
- Inability of the Group's borrowers to timely or fully comply with their existing obligations.
- The process the Group uses to estimate losses inherent in its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of the Group's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, impact the reliability of the process and the 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.
- Macroeconomic shocks may negatively impact the household income of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan losses.

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly. Such economic uncertainty could have a negative impact on the Group's business and results of operations. Investors remain cautious and the downgrade of the sovereign debt of France, for example, has induced greater volatility in the capital markets. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Group and on others in the financial services industry.

Increased disruption and volatility in the global financial markets could have a material adverse effect on the Group, including its ability to access capital and liquidity on financial terms acceptable to 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 materialize, this could have a material adverse effect on the Group.

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

The Group results of operations are materially affected by conditions in the capital markets and the economy generally in the Eurozone, which, although improving recently, continue to show signs of fragility and volatility and in some cases only sporadic access to capital markets. Interest rate differentials among Eurozone countries are affecting government finance and borrowing rates in those economies.

The European Central Bank (the "ECB") and European Council took actions in 2012 and 2013 to aim to reduce the risk of contagion throughout and beyond the Eurozone. These included the creation of the Open Market Transaction facility of the ECB and the decision by Eurozone governments to create a banking union. A significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations that are under financial pressure. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized, resulting in the further spread of the ongoing economic crisis.

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

The Group has direct and indirect exposure to financial and economic conditions throughout the Eurozone economies. A deterioration of the economic and financial environment could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. This could materially and adversely affect the Group operating results, financial position and prospects.

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

Like many other banks, the Group invests in debt securities of governments in the geographies in which the Group operates, including debt securities of the countries that have been most affected by the deterioration in economic conditions, such as Spain, Portugal, Italy and Ireland. Although doubts remain about the solvency of certain countries, the implementation of new regulations by the European Banking Authority may have reduced the risk associated with the sovereign debt of such countries. A failure by any such government to make timely payments under the terms of these securities, or a significant decrease in their market value, could have a material adverse effect on the Group.

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

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

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

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

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

Risks Relating to the Group Business

Legal, Regulatory and Compliance Risks

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

The Group faces risk of loss from legal and regulatory proceedings, including tax proceedings that could subject the Group to monetary judgments, regulatory enforcement actions, fines and penalties. The current regulatory 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 parties 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 Group believes that it has made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. However, the amount of these provisions is substantially less than the total amount of the claims asserted against the Group and in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Group. As a result, the outcome of a particular matter may be material to the Group's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and its level of income for that period.

The Group is subject to substantial regulation which could adversely affect its business and operations.

As a financial institution, the Group is subject to extensive regulation, which materially affects its businesses. For example, the Group is subject to capital adequacy requirements which, among other things, require the Group to maintain minimum ratios of regulatory capital to risk-weighted assets. Any failure by the Group to comply with capital adequacy requirements may result in administrative actions or sanctions which may affect the Group ability to fulfill its obligations.

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

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

Extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group's business, including Spain, the United States, the European Union, Latin America and other jurisdictions, and regulations are in the process of being implemented.

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

In December 2010, the Basel Committee on Banking Supervision (the "Basel Committee") reached agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. Basel III is intended to raise the resilience of the banking sector by increasing both the quality and quantity of the regulatory capital base and enhancing the risk coverage of the capital framework. Among other things, Basel III introduces new eligibility criteria for Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments that are intended to raise the quality of regulatory capital, and increases the amount of regulatory capital that institutions are required to hold. Basel III also requires institutions to maintain a capital conservation buffer above the minimum capital ratios in order to avoid certain capital distribution constraints. The capital conservation buffer, to be comprised of Common Equity Tier 1 capital, would result in an effective Common Equity Tier 1 capital requirement of 7 percent of risk-weighted assets. In addition, Basel III directs national regulators to require certain institutions to maintain a counter-cyclical capital buffer during periods of excessive credit growth. Basel III introduces a leverage ratio for institutions as a backstop measure, to be applied from 2018 alongside current risk-based regulatory capital requirements. The changes in Basel III are intended to be phased in gradually between January 2013 and January 2022. The implementation of Basel III in the European Union is being performed through the Capital Requirements Directive IV ("CRD IV") & Capital Requirements Regulation ("CRR") legislative package. CRD IV was published in the Official Journal on June 27, 2013 entered into force in July 2013 (being CRR applicable from January 2014), with particular requirements being phased in over a period of time, to be effective by 2019, although requirements relating to certain deductions from Common Equity Tier 1 could be delayed until 2024. CRD IV substantially reflects the Basel III capital and liquidity standards and facilitates the applicable implementation timeframes. However, certain issues continue to remain under discussion and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority.

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

As a Spanish financial institution, the Bank is subject to CRD IV, through which the European Union has implemented the Basel III capital standards and which are in the process of being phased in until January 1, 2019. The CRR is applicable from January 1, 2014 and the CRD IV Directive has already been partially implemented in Spain as of January 1, 2014 by RD-L 14/2013. This Royal Decree-Law has repealed, with effect from January 1, 2014, any Spanish regulatory provisions that may be incompatible with CRR.

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

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

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

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

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

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

Finally, in February 2014 the IMF recommended that the Bank of Spain limit the amount of dividends payable in cash in 2014 by Spanish banking institutions to 25% of such bank's attributable profits. The Bank of Spain has given this recommendation to the Spanish banking institutions.

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

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

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

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

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

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

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

- a supervisory risk assessment – to review, quantitatively and qualitatively, key risks, including liquidity, leverage and funding;

- an asset quality review (AQR) – to enhance the transparency of bank exposures by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions;

- a stress test – to examine the resilience of banks' balance sheets to stress scenarios.

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

Other open issues include the representation and voting power of non-eurozone countries, the accountability of the ECB to European institutions as part of the Single Supervision Mechanism, the final status of the EBA, the development of a new bank resolution regime and the creation of a common deposit-guarantee scheme. In particular, the Bank Recovery and Resolution Directive (**BRRD**) and the Deposit Guarantee Schemes Directive were submitted to the European Parliament in June 2013. They have been approved by the European Parliament on 15 April 2014 and by the European Council on 6 May 2014 but it is pending for its official publication. The BRRD is expected to enter into force in 2015, but the bail-in tool will only be operational from 2016. The final regulation on direct recapitalization by the European Stability Mechanism is still pending. European leaders have also supported the reinforcement of the fiscal union but continue negotiating on how to achieve it.

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

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

The European Parliament approved the following dossiers in April 2014 to develop a European Banking Union:

- The proposal for a Bank Recovery and Resolution Directive (**BRRD**) was also approved by ECOFIN on 6 May 2014 and it is pending to be officially published. The BRRD is the single rulebook for the resolution of banks and large investment firms in all EU Member States. It harmonizes and upgrades the tools for dealing with bank crises across the EU. Banks will be required to prepare recovery plans to overcome financial distress, while authorities will lay out plans to resolve failed banks in a way which preserves their most critical functions and avoids taxpayer-funded bailouts. Authorities are granted a set of powers to intervene in the operations of banks to help prevent failure. If they do face failure, authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a clearly defined hierarchy.

- The agreement with the EU Council on the Single Resolution Mechanism (SRM) is expected to be approved by the Parliament in July or September 2014. The agreement includes the creation of a Single Resolution Fund (SRF) which will be fully endowed in a maximum of eight years. It is expected that the agreement between governments will be signed in May 2014 and approved by national parliaments by year end. The SRM will complement the Single Supervisory Mechanism (SSM) and will ensure that, if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. The SRM will apply to all banks in the Euro Area and other Member States that choose to participate. The division of powers between the Single Resolution Board and national resolution authorities broadly follows the division of supervisory powers between the ECB and national supervisors in the context of the Single Supervisory Mechanism.

  The Single Resolution Fund will be financed with contributions from all banks in the participating Member States. It will be administrated by the Board. The Fund has a target level, to be reached over eight years, of € 55 billion and can borrow from the markets by order of the Board. During the transition, the Fund will be divided among national compartments whose resources will be progressively mutualized, starting with 40% of funds in the first year. The Fund and decision making on its use is regulated by the SRM Regulation, while the transfer of contributions raised nationally towards the Single Fund and the mutualization of the national compartments is set out in an inter-governmental agreement established among the participating Member States.

- The proposal for recast Directive on Deposit Guarantee Schemes (DGS) ensures that depositors will continue to benefit from a guaranteed coverage of € 100,000 in case of bankruptcy backed by funds to be collected in advance from the banking sector. In principle, the target level for ex ante funds of DGS is 0.8% of covered deposits (i.e. about € 55billion) to be collected from banks over a 10-year period. Repayment deadlines will be gradually reduced from the current 20 working days to 7 working days in 2024. The new Directive will require that better information be provided to depositors to ensure that they are aware of how their deposits are protected by the guarantee schemes.

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

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

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

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

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

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

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

Furthermore, Title I of the Dodd-Frank Act and the implementing regulations issued by the Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") require each bank holding company with assets of $50 billion or more, including the Group, to prepare and submit annually a plan for the orderly resolution of the Group's subsidiaries and operations that are domiciled in the United States in the event of future material financial distress or failure. The plan must include information on resolution strategy, major counterparties and interdependencies, among other things, and requires substantial effort, time and cost. The Group submitted its U.S. resolution plan in December 2013. The resolution plan is subject to review by the Federal Reserve Board and the FDIC.

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

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

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

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

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

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and related activities, such policies and procedures may not completely eliminate instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which the Group reports have the power and authority to impose fines and other penalties on the Group, including the revocation of licenses. In addition, the Group's business and reputation could suffer if customers use its banking network for money laundering or illegal or improper purposes.

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

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

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

Financial Reporting and Control Risks

Changes in accounting standards could impact reported earnings.

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

The Group financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of the Group 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 recognized in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgments and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, deferred tax assets and provision for liabilities.

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

If the judgment, estimates and assumptions the Group uses in preparing the 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 the Group's funding requirements and capital ratios.

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 certain foreign countries. 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 effect on its results of operations.

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

Disclosure controls and procedures over financial reporting are designed to reasonably assure that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC'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 simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by any unauthorized override of the controls. Consequently, the Group businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

Liquidity and Financing Risks

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

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

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

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

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

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

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

The Group cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, the Group 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 downgrading in the Group’s credit rating would likely increase its cost of funding, require the Group to post additional collateral or take other actions under some of the Group’s derivative contracts and adversely affect its interest margins and results of operations.

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 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 the Group’s derivative contracts, and could limit its access to capital markets and adversely affect its commercial business. For example, a ratings downgrade could adversely affect the Group’s ability to sell or market certain of its products, engage in certain longer-term and derivatives transactions and retain its customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of its derivative contracts, the Group may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce the Group’s liquidity and have an adverse effect on the Group, including its operating results and financial condition.

Banco Santander, S.A.'s long-term debt is currently rated investment grade by the major rating agencies—Baa1 by Moody’s Investors Service España, S.A., BBB by Standard & Poor’s Ratings Services and BBB+ by Fitch Ratings Ltd.— all of which have stable outlook. During 2012, following downgrades of Spanish sovereign debt, all three agencies downgraded Banco Santander, S.A.’s rating together with that of the other main Spanish banks, due to the weaker-than-previously-anticipated macroeconomic and financial environment in Spain with dimming growth prospects in the near term, depressed real estate market activity and heightened turbulence in the capital markets. In the fourth quarter of 2013 and first quarter of 2014 the three agencies revised the Group’s outlook from negative to stable reflecting the gradual improvement of the Spanish economy and the view that any further weakening of the Group’s credit profile was unlikely to be significant. In March 2014, Moody’s Investors Service upgraded the Group’s rating from Baa2 to Baa1 following the upgrade of Spain’s sovereign debt rating announced on February 21 along with the change of the outlook on Spain’s rating to positive from stable.

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

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

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

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

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favorable 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.

Risk Management

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

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

Some of the Group qualitative tools and metrics for managing risk are based upon its use of observed historical market behavior. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. The Group losses thus could be significantly greater than the historical measures indicate. In addition, the Group quantified modeling does not take all risks into account. The Group more qualitative approach to managing those risks could prove insufficient, exposing the Group to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could have a material adverse effect on its operating results, financial condition and prospects.

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

In addition, the Group has been trying to refine its credit policies and guidelines to address potential risks associated with particular industries or types of customers. However, the Group may not be able to timely detect these risks before they occur, or due to limited tools available to the Group, its employees may not be able to effectively implement them, which may increase the Group's credit risk. Failure to effectively implement, consistently follow or continuously refine the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on the Group.

Credit Risks

If the Group is unable to effectively control the level of non-performing or poor credit quality loans in the future, or if the Group's loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on the Group.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Non-performing or low credit quality loans have in the past and can continue to negatively impact the Group's results of operations. The Group cannot assure you that it will be able to effectively control the level of the impaired loans in its total loan portfolio. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in its total loan portfolio, including as a result of loan portfolios that the Group may acquire in the future, or factors beyond its control, such as adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in economic conditions in Continental Europe, the United Kingdom, Latin America, the United States or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

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

Mortgage loans are one of the Group's principal assets, comprising 53% of its loan portfolio as of December 31, 2013. As a result, the Group is exposed to developments in housing markets, especially in Spain and the United Kingdom. In addition, the Group has exposure to a number of large real estate developers in Spain. From 2002 to 2007, demand for housing and mortgage financing in Spain increased significantly driven by, among other things, economic growth, declining unemployment rates, demographic and social trends, the desirability of Spain as a vacation destination and historically low interest rates in the Eurozone. The United Kingdom also experienced an increase in housing and mortgage demand driven by, among other things, economic growth, declining unemployment rates, demographic trends and the increasing prominence of London as an international financial center. During late 2007, the housing market began to adjust in Spain and the United Kingdom as a result of excess supply (particularly in Spain) and higher interest rates. Since 2008, as economic growth stalled in Spain and the United Kingdom, persistent housing oversupply, decreased housing demand, rising unemployment, subdued earnings growth, greater pressure on disposable income, a decline in the availability of mortgage finance and the continued effect of global market volatility have caused home prices to decline, while mortgage delinquencies increased. As a result of these and other factors, the Group's NPL ratio increased from 0.94% at December 31, 2007, to 2.02% at December 31, 2008, to 3.24% at December 31, 2009, to 3.55% at December 31, 2010, to 3.89% at December 31, 2011 and to 4.54% at December 31, 2012. At December 31, 2013, the Group's NPL ratio was 5.64%. These trends, especially higher unemployment rates coupled with declining real estate prices, could have a material adverse impact on the Group's mortgage payment delinquency rates, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

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

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

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

The value of the collateral securing the Group's loan portfolio may fluctuate or decline due to factors beyond 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 the Group's loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of the Group's loan portfolio and could have an adverse impact on the economy of the affected region. The Group may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of the Group's loans secured by such collateral. If any of the above were to occur, the Group may need to make additional provisions to cover actual impairment losses of the Group's 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 transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions the Group enters into expose the Group to significant credit risk in the event of default by one of the Group's significant counterparties.

Market Risks

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

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

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

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

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

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

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

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 Group is also exposed to equity price risk in connection with its trading investments in equity securities. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty and sovereign debt crisis has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations could become a permanent impairment which would be subject to write-offs against its results. To the extent any of these risks materialize, 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 the Group's operating results, financial condition and prospects.

In the past six years, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. The Group has material exposures to securities, 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 realized by the Group on disposal may be lower than the current fair value. Any of these factors could require the Group to record negative fair value adjustments, which may have a material adverse effect on the Group's operating results, financial condition or prospects.

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

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

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

General Business and Industry Risks

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

Market turmoil and economic recession could materially and adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn increase its 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. Any of the conditions described above could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group provides retirement benefits for many of its former and current employees through a number of defined benefit pension plans. The Group calculates the amount of 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. These calculations are based on IFRS and on those other requirements defined by the local supervisors. Given the nature of these obligations, changes in the assumptions that support valuations, including market conditions, can result in actuarial losses which would in turn impact the financial condition of the Group's pension funds. 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 its accrue.

Any increase in the current size of the deficit in the Group defined benefit pension plans, due to reduction in the value of the pension fund assets (depending on the performance of financial markets) or an increase in the pension fund liabilities due to changes in mortality assumptions, the rate of increase of salaries, discount rate assumptions, inflation, the expected rate of return on plan assets, or other factors, could result in the Group having to make increased contributions to reduce or satisfy the deficits which would divert resources from use in other areas of its business and reduce its capital resources. While the Group can control a number of the above factors, there are some 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.

Some of the Group's operations are conducted through its financial services subsidiaries. As a result, the Group's ability to pay dividends, to the extent it decides to do so, depends in part on the ability of the Group's subsidiaries to generate earnings and to pay dividends to the Group. Payment of dividends, distributions and advances by its 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 reorganization, will be effectively subordinated to the claims of the Group subsidiaries' creditors, including trade creditors.

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

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

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

Increasing competition could require that the Group increases its rates offered on deposits or lower the rates 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 the Group's ability to increase its customer base and expand the Group's operations and increasing competition for investment opportunities.

In addition, if the Group's customer service levels were perceived by the market to be materially below those of its competitor financial institutions, the Group could lose existing and potential business. If the Group 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 its clients and the Group's ability to continue offering products and services from third parties, and the Group may not be able to manage various risks its faces as the Group expands its range of products and services that could have a material adverse effect on the Group.

The success of the Group's operations and its profitability depends, in part, on the success of new products and services it offers its clients and its ability to continue offering products and services from third parties. However, the Group cannot guarantee that its new products and services will be responsive to client demands or successful once they are offered to the Group's clients, or that they will be successful in the future. In addition, the Group 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. If the Group cannot respond in a timely fashion to the changing needs of its clients, the Group may lose clients, which could in turn materially and adversely affect the Group.

As the Group expands the range of its products and services, some of which may be at an early stage of development in the markets of certain regions where the Group 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 the Group's partners may not be sufficient or adequate to enable the Group to properly handle or manage such risks. In addition, the cost of developing products that are not launched is likely to affect the Group's results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on the Group.

Further, the Group's customers may issue complaints and seek redress if they consider that they have suffered loss from its products and services, for example, as a result of any alleged mis-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 the Group's customers and intervention by its regulators. The Group has in the past experienced losses due to claims of mis-selling in the U.K., 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 Risk Factor entitled "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 the Group believes offer additional value to its shareholders and is consistent with its business strategy. However, the Group may not be able to identify suitable acquisition or partnership candidates, and the Group's 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 the Group's expectations with regards to integration and synergies will materialize. The Group also cannot provide assurance that the Group will, in all cases, be able to manage its growth effectively or deliver the Group strategic growth objectives. Challenges that may result from its 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;
- finance strategic investments or acquisitions;
- fully integrate strategic investments, or newly-established entities or acquisitions in line with its strategy;
- align the Group's current information technology systems adequately with those of an enlarged group;
- apply the Group's risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively, including relating to any or all of the above challenges associated with the Group's growth plans, could have a material adverse effect on its operating results, financial condition and prospects.

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

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

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

The Group relies on third parties for important products and services.

Third party vendors provide key components of the Group's business infrastructure such as loan and deposit servicing systems, internet connections and network access. Third parties can be sources of operational risk to the Group, including with respect to security breaches affecting such parties. The Group may be required to take steps to protect the integrity of the Group's 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 the Group's business prospects.

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

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

The Group could suffer significant reputational harm if it fails to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as the Group expands its business activities through more numerous transactions, obligations and interests with and among its clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with the Group, or give rise to litigation or enforcement actions against the Group. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Group.

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

The Group and its affiliates have entered into a number of services agreements pursuant to which it renders services, such as administrative, accounting, finance, treasury, legal services and others.

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

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

Technology Risks

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 the Group's 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 you that in the future the Group will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of 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 are inherent in the Group business.

The Group businesses depend on the ability to process a large number of transactions efficiently and accurately, and on the Group's 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 cyber-attacks, the Group routinely exchanges personal, confidential and proprietary information by electronic means, and the Group may be the target of attempted cyber-attacks. If the Group cannot maintain an effective data collection, management and processing system, the Group may be materially and adversely affected.

The Group takes protective measures and continuously monitors and develops its systems to protect the Group's technology infrastructure and data from misappropriation or corruption, but the Group's systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurance that the Group will not suffer material losses from operational risk in the future, including relating to cyber-attacks or other such security breaches. Further, as cyber-attacks continue to evolve, the Group may incur significant costs in its attempt to modify or enhance its protective measures or investigate or remediate any vulnerabilities.

Failure to protect personal information could adversely affect the Group.

The Group manages and holds confidential personal information of customers in the conduct of its banking operations. Although the Group has procedures and controls to safeguard personal information in the Group's possession, unauthorized 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.

Risks Relating to the Preferred Securities Generally

The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change (including as a result of the implementation of CRD IV and the BRRD) and have a material adverse effect on the terms and market value of the Preferred Securities

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Offering Circular. Changes in the laws of Spain or their official interpretation by regulatory authorities such as the Bank of Spain or the ECB after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Preferred Securities.

Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Preferred Securities, which may have an adverse effect on investment in the Preferred Securities. They could also include the introduction of a variety of further statutory resolution, loss-absorption and bail-in measures and tools, which may affect the rights of holders of obligations issued by the Bank, including the Preferred Securities.

Changes in Spanish law may also include the amendment of Spanish laws governing the recovery, resolution and statutory loss absorbency regime established under Law 9/2012, or any ordinance implementing, amending or substituting the same as a result of the implementation of the Bank Resolution and Recovery

Directive ("**BRRD**") which has been approved by the European Parliament on 15 April 2014 but by the European Council on 6 May 2014 but it is still pending to be officially published.

In addition, other changes in Spanish law may include the amendment of Spanish laws as required in order to complete the implementation of CRD IV.

CRD IV is a recently-adopted set of rules and regulations that imposes a series of new requirements, many of which will be phased in over a number of years. Certain parts of the CRD IV Directive require transposition into Spanish law and although the CRR is directly applicable in each Member State the CRR leaves a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and leaves certain other matters to the discretion of the relevant regulator.

Any such changes (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio or the CET 1 Capital of the Bank or the Group or the Risk Weighted Assets Amount. Furthermore, because the occurrence of the Trigger Event depends, in part, on the calculation of these ratios and capital measures, any change in Spanish law that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred.

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

Furthermore, any change in the laws or regulations of Spain, Applicable Banking Regulations or any change in the application or official interpretation thereof may in certain circumstances result in the Bank having the option to redeem the Preferred Securities in whole but not in part (see "*—The Preferred Securities may be redeemed at the option of the Bank*"). In any such case, the Preferred Securities would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

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

CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of RWA. In addition to these so-called "*own funds*" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV). The Bank may also decide to hold additional capital. CRD IV further introduces capital buffer requirements that are in addition to the minimum capital requirement and are required to be satisfied with common equity tier 1 capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Bank and/or the Group as determined by the Regulator.

Under Article 141 of the CRD Directive, Member States of the European Union must require that institutions that fail to meet 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 institution buffer, in each case as applicable to the institution) will be prohibited from paying any "*discretionary payments*" (which are defined broadly by CRD IV as payments relating to common equity Tier 1, variable remuneration and payments on Additional Tier 1 capital instruments such as the Preferred Securities), until it calculates its applicable restrictions and communicates them to the Regulator and, once done, 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. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the Bank's discretion to cancel (in whole or in part) payments of Distributions in respect of the Preferred Securities.

Although provisional and subject to amendment as part of the legislative process, the bill of the Supervision and Solvency Law provides for the implementation in Spain of the above provisions. Additionally, the bill of the Supervision and Solvency Law provides for further regulatory development of Article 141. However, the implementation of Article 141 remains uncertain and, as at the date of this Offering Circular, the Bank of Spain is yet to publish details of its intentions in respect of the implementation of this Article in Spain.

Loss absorption within the framework of restructuring and resolution processes under Law 9/2012

Chapter VII of Law 9/2012 regulates a set of measures targeted at ensuring that shareholders and subordinated creditors (as holders of preferred securities) bear losses through a burden sharing mechanism within the framework of *restructuring* and *resolution* processes. These measures could include the discharge of any indebtedness and a stay of payment in respect of any indebtedness taken voluntarily – by the institution – or imposed by the FROB, even against the will or without the consent of those holding the relevant securities. Measures include redemption in part or in whole of the securities or liabilities involved, write-downs of their nominal value or their exchange for other securities.

Potential investors in the Preferred Securities should consider the risk that a holder may lose all or part of its investment if the Issuer became the subject of a *restructuring* or a *resolution* process and a loss absorption measure was taken with respect to the Preferred Securities in accordance with Chapter VII of Law 9/2012.

Loss absorption at the point of non-viability of the Issuer and resolution under the BRRD

The BRRD is a legislative proposal for a directive to provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The text of the BRRD was approved by the European Parliament on 15 April 2014 and was approved by the European Council on 6 May 2014 and it is still pending to be officially published.

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 an unsound or failing institution 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.

The powers provided to resolution authorities in the BRRD include write down and conversion powers to ensure relevant capital instruments (including Additional Tier 1 capital instruments such as the Preferred Securities) fully absorb losses at the point of non-viability of the issuing institution, as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. Accordingly, the BRRD contemplates that resolution authorities may require the permanent write down in full of such capital instruments (including Additional Tier 1 capital instruments such as the Preferred Securities) or the conversion of them into common equity tier 1 instruments at the point of non-viability (which common equity tier 1 instruments may also be subject to any application of the bail-in tool) and before any other resolution action is taken (the BRRD Loss Absorption Requirement).

For the purposes of the BRRD Loss Absorption Requirement, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution or will no longer be viable (on a standalone or group basis) unless the relevant capital instruments (including the Preferred Securities) are written down or converted to equity or extraordinary public support is required by the institution. The determination that an institution is no longer viable may depend on a number of factors which may be outside of that institution's control. Furthermore, the determination that all or part of the principal amount of any relevant capital instruments (such as the Preferred Securities) will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the institution's control. This determination will be made by the institution's regulators and there may be many factors, including factors not directly related to the institution, which could result in such a determination.

Member States will be expected to implement the proposed BRRD Loss Absorption Requirement on or before 1 January 2015 but the bail-in tool only from 1 January 2016.

In addition to the above, and as described in more detail in *Loss absorption within the framework of restructuring and resolution processes under Law 9/2012* above, the Spanish Government, anticipating the rules to be implemented pursuant to the BRRD and implementing the agreements reached in the memorandum of understanding on financial sector policy conditionality dated 20 July 2012 entered into between the Spanish Government and the Euro Group through Royal-Decree Law 24/2012, of 31 August, which was later replaced by Law 9/2012, has already introduced certain specific loss absorption measures in Spain that could be applied by the Bank, the Bank of Spain or the FROB in the context of any restructuring and resolution processes under Law 9/2012.

The obligations of the Bank under the Preferred Securities may, therefore, be subject to loss absorption pursuant to the BRRD Loss Absorption Requirement or otherwise on any bail-in or pursuant to the loss absorption measures under Law 9/2012, which may result in holders of the Preferred Securities losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Preferred Securities.

It is presently unclear what the implications of its implementation will be for the loss absorption measures introduced in Spain by Law 9/2012 and as to what extent, if any, the provisions of Law 9/2012 may need to change to implement the BRRD. Accordingly, it is not yet possible to assess the full impact of Law 9/2012 or the BRRD. There can be no assurance that the implementation of the BRRD or Law 9/2012 would not adversely affect the price or value of a Holder's investment in the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

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

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) converted into newly issued Common Shares. Because the Trigger Event will occur when the CET1 ratio of the Bank and/or the Group, as applicable, will have deteriorated significantly, the resulting Trigger Event will likely be accompanied by a prior deterioration in the market price of the Common Shares, which may be expected to continue after announcement of the Trigger Event.

Therefore, in the event of the occurrence of the Trigger Event, the Current Market Price of a Common Share, translated into U.S. dollars at the Prevailing Rate, may be below the Floor Price, and investors could receive Common Shares at a time when the market price of the Common Shares is considerably less than the Conversion Price. In addition, there may be a delay in a Holder receiving its Common Shares following the Trigger Event, during which time the market price of the Common Shares may fall further. As a result, the value (in U.S. dollars) of the Common Shares received on conversion following the Trigger Event could be substantially lower than the price paid for the Preferred Securities at the time of their purchase.

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Common Shares in the event of the Trigger Event. See also "*Holders will bear the risk of fluctuations in the price of the Common Shares and/or movements in any ratio that could give rise to the occurrence of a Trigger Event*" below.

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

In accordance to article 418.3 of the Spanish Companies Law, in the event that the Bank intends to approve a capital reduction by reimbursement of contributions (*restitución de aportaciones*) to shareholders, Holders will be entitled to convert their Preferred Securities into Common Shares at the applicable Conversion Price prior to the execution of such capital reduction. A resolution of capital reduction for the redemption of any Common Shares previously repurchased by the Bank will not be considered a capital reduction for these purposes.

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

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. For example, the occurrence of one or more of the risks described under "*Risk Factors—Risk Relating to Group Operations*", or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends, in part, on the calculation of the CET1 Ratio, which can be affected, among other things, by the growth of the business and future earnings of the Bank and/or the Group, as applicable; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible changes in regulatory capital definitions, calculations and risk weighted assets) and the Bank's ability to actively manage the risk weighted assets of the Bank and the Group. In addition, since the Regulator may require the Bank to calculate the CET1 Ratio at any time, the Trigger Event could occur at any time.

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

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

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

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

Perpetual Preferred Securities

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption.

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

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

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

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

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

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

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

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

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

The Preferred Securities accrue Distributions as further described in Condition 3, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that:

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

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

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

No Distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank to be exceeded. See Risk Factor "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions*".

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

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

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

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank will not be in any way limited or restricted from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET 1 Capital of the Bank or the Group) or in respect of any other Parity Security.

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

There are no events of default

Holders have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution in whole or in part at any time and as further contemplated in Condition 3 (see "—*Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*") and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank. If Common Shares are not issued and delivered following the Trigger Event, then on a liquidation, dissolution or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Trigger Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

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

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

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

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

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

Holders have limited anti-dilution protection

The number of Common Shares to be issued and delivered on Trigger Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date. The Conversion Price will be, if the Common Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Current Market Price of a Common Share, translated into U.S. dollars at the Prevailing Rate, (b) the Floor Price and

(c) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date), translated into U.S. dollars at the Prevailing Rate, or, if the Common Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 5 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Common Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Common Shares, but only in the situations and to the extent provided in Condition 5.3. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Common Shares or that, if a Holder were to have held the Common Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

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

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

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

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

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

The Preferred Securities will constitute unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) pari passu with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

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

Furthermore, if the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place before the liquidation, dissolution or winding-up of the

Bank, the entitlement of Holders will be to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if the Trigger Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

Therefore, if the Trigger Event occurs, each Holder will be effectively further subordinated from being the holder of a subordinated debt instrument to being the holder of Common Shares and there is an enhanced risk that Holders will lose all or some of their investment.

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

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

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

There are limited remedies available under the Preferred Securities

There are no Events of Default under the Preferred Securities (see "—*There are no events of default*"). In the event that the Bank fails to make any payments or deliver any Common Shares when the same may be due, the remedies of Holders are limited to bringing a claim for breach of contract.

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

Upon the occurrence of the Trigger Event, a Holder receiving Common Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to Law 24/1988, of 28 July, on the Securities Market, as amended and Royal Decree-Law 1066/2007, of 27 July 2007, as amended on the legal regime of take-over bids, which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, if its aggregate holding in the Bank exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Common Shares.

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

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

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

Except as provided under Condition 9.7, there is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Preferred Securities. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation, dissolution or winding-up of the Bank in respect of the Preferred Securities and may limit the ability of the Bank to meet its obligations in respect of the Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Common Shares or securities ranking pari passu with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

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

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

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

Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Offering Circular, taking into account that the Preferred Securities may only be a suitable investment for professional or institutional investors;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and the Trigger Conversion of the Preferred Securities into Common Shares, and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

Risk relating to tax regulations

Spanish tax rules

Article 44 of Royal Decree 1065/2007, as amended ("**Royal Decree 1065/2007**") sets out the reporting obligations applicable to preferred securities and debt instruments issued under Law 13/1985. The procedures apply to income deriving from preferred shares and debt instruments to which Law 13/1985 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 13/1985 applies originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another OECD country (such as the Depository Trust Company, Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Paying Agent appointed by the Bank submits, in a timely manner, a statement to the Bank, the form of which is attached as Exhibit I, with the following information:

(i) identification of the securities;

(ii) income payment date (or refund if the securities are issued at discount or are segregated);

(iii) total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated); and

(iv) total amount of the income corresponding to each clearing system located outside Spain.

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 Preferred Securities and the issue price of the Preferred Securities.

In accordance with Article 44 of Royal Decree 1065/2007, the relevant Paying Agent should provide the Bank with the statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on such date, the entity(ies) obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate (currently 21 per cent.) on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event that withholding tax were required by law due to the failure of the relevant Paying Agent to submit in a timely manner a duly executed and completed certificate pursuant to Law 13/1985 and Royal Decree 1065/2007 and any implementing legislation or regulation, the Bank will not pay any additional amounts with respect to any such withholding, as provided in Condition 10.

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

U.S. Foreign Account Tax Compliance Withholding

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

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

The Council Directive 2003/48/EC has been amended by the Council Directive 2014/48/EU which was published on 15 April 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Preferred Security as a result of the imposition of such withholding tax. The Bank is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Risks Relating to the Market for the Preferred Securities

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

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 7. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in US dollars. 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 US dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollar would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption monies payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

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

Interest rate risk

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

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

The Preferred Securities are expected, upon issue, to be assigned a Ba2 by Moody's. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

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

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

A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Potential investors should not rely on any rating of the Preferred Securities and should make their investment decision on the basis of considerations such as those outlined above (see "*The Preferred Securities may not be a suitable investment for all investors*").

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain credit rating information is set out on the cover of this Offering Circular

Legal investment considerations may restrict certain investments

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

CONDITIONS OF THE PREFERRED SECURITIES

The following is the text of the Conditions of the Preferred Securities (save for the paragraphs of italicised text in Conditions 1, 2, 6, 7 and 10).

The Preferred Securities (as defined below) are issued by Banco Santander, S.A. (the **Bank**) by virtue of the resolutions passed by (i) the shareholders meeting of the Bank, held on 28 March 2014, (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 28 March 2014 and (iii) the meeting of the Executive Committee (*Comisión Ejecutiva*) of the Bank, held on 7 May 2014, and in accordance with the CRR (as defined below), Royal Decree-law 14/2013 of 29 November, on urgent measures to adapt the Spanish system to EU rules on supervision and solvency of financial institutions (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) (**RD-L 14/2013**) and, for tax purposes, the Second Additional Provision of Law 13/1985, of 25 May 1985, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*), as amended (**Law 13/1985**).

The Preferred Securities will be issued following the registration with the Mercantile Registry of Cantabria of a public deed relating to the issuance of the Preferred Securities before the Closing Date (as defined below) (the **Public Deed of Issuance**).

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

1. DEFINITIONS

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

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

(a) the rate for U.S. dollar swap transactions with a term for 5 years, expressed as a percentage, which appears on the Screen Page as of 11.00 a.m. (New York City time) on the Reset Determination Date; or

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

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

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

(b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to the rate for deposits in U.S. dollars for a three month period offered by the principal London offices of leading swap dealers in the New York City interbank market to prime banks in the London interbank market;

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

Agency Agreement means the agency agreement dated 19 May 2014 relating to the Preferred Securities;

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

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

Applicable Banking Regulations means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Bank and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group);

Available Distributable Items means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Bank which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution.

As at the date of this offering circular, Article 4(1)(128) of the CRR provides as follows:

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

The availability of any reserves for distribution for the purposes of the above is subject, among other things, as at the date of this offering circular, to the prior authorisation of the relevant authority(ies).

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

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

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

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

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

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

Closing Date means 19 May 2014;

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

Commissioner means the *comisario*, as this term is defined under the Spanish Companies Act, of the Syndicate;

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

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

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

  (i) the Current Market Price of a Common Share, translated into U.S. dollars at the Prevailing Rate;

  (ii) the Floor Price; and

(iii) the nominal value of a Common Share (being €0.50 on the Closing Date), translated into U.S. dollars at the Prevailing Rate,

in each case on the Trigger Event Notice Date; or

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

For the avoidance of doubt, the translation into U.S. dollars at the Prevailing Rate described above shall in no circumstances imply that any Common Share will be issued at a price of less than its nominal value expressed in euro.

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

Conversion Shares has the meaning given in Condition 5.2;

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

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

CRD IV Implementing Measures means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Bank (on a standalone basis) or the Group (on a consolidated basis);

CRR means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 or such other regulation as may come into effect in place thereof;

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

Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

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

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

and provided further that:

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

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

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

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

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

Distribution Payment Date means each of 19 February, 19 May, 19 August and 19 November in each year;

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

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

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

(a) where:

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

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

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

(c) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Act for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Common Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Common Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of a Common Share on the 5 dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Common Shares at some future date at a specified price or where a tender offer is made, on the 5 dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Common Share, a minimum price per Common Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Common Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of a Common Share determined as aforesaid and (ii) the number of Common Shares so purchased, redeemed or bought back;

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

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

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

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

Extraordinary Resolution has the meaning given in Condition 9.3(a);

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

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

Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

First Reset Date means 19 May 2019;

Floor Price means U.S.$6.556 per Common Share, subject to adjustment in accordance with Condition 5.3;

As at the date of this offering circular the Floor Price is equivalent to a price of €4.7256 per Common Share translated into U.S. dollars at an exchange rate of €1.00 = U.S.$ 1.3874 and rounded to 3 decimal places.

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

General Meeting of Holders means the general meeting of Holders convened in accordance with the Regulations (as defined in Condition 9.1 below);

Group means the Bank together with its consolidated Subsidiaries;

Holders means holders of the Preferred Securities;

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

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

Initial Margin means 4.788 per cent per annum;

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

Liquidation Preference means U.S.$200,000 per Preferred Security;

Maximum Distributable Amount means any maximum distributable amount required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV);

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

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

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

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

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

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

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

Parity Securities means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 and/or RD-L 14/2013 and/or under the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the Preferred Securities;

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

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

Preferred Securities means the U.S.$1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

Prevailing Rate means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (London time) on that date as appearing on or derived from Reuters page ECB37 or, if not available, from any other Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

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

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

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

Reference Banks means 5 leading swap dealers in the New York City inter-bank market as selected by the Bank;

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

Regulator means the Bank of Spain or such other governmental authority which assumes or performs the functions of the Bank of Spain, as at the Closing Date, or such other or successor authority exercising primary bank supervisory authority, in each case with respect to prudential matters in relation to the Bank and/or the Group;

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

Reset Determination Date means, in relation to each Reset Date, the second U.S. Government Securities Business Day immediately preceding such Reset Date;

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

Reset Reference Bank Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 a.m. (New York City time) on the Reset Determination Date for such Reset Date. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 1.689 per cent. per annum;

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

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

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

Screen Page means the display page on the relevant Reuters information service designated as the "ISDAFIX1" page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate;

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

Selling Agent has the meaning given in Condition 5.10;

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

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

Shareholders means the holders of Common Shares;

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

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

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

Spin-Off means:

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

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

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

Subsidiary means any entity over which the Bank may have, directly or indirectly, control in accordance with Article 8.3 of Spanish Law 13/1985 and/or Applicable Banking Regulations;

Syndicate means the sindicato as this term is described under the Spanish Companies Act;

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

Tax Event means that as a result of any change in the laws or regulations of Spain or in either case of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of the Preferred Securities (a) the Bank would not be entitled to claim a deduction in computing taxation liabilities in Spain (as defined in Condition 10) in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts as provided in Condition 10, or (c) the applicable tax treatment of the Preferred Securities changes;

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

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

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

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

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

U.S.$ and **U.S. dollars** means the lawful currency of the United States of America;

U.S. Government Securities Business Day means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for the purposes of trading in U.S. government securities;

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

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

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

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

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

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

2. FORM AND STATUS

The Preferred Securities will be issued in bearer form.

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

Unless previously converted into Common Shares pursuant to Condition 5, the Preferred Securities are unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

3. DISTRIBUTIONS

3.1 The Preferred Securities accrue Distributions:

(a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.375 per cent. per annum; and

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

Subject as provided in Conditions 3.3 and 3.4 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by 30/360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). For this purpose, **30/360** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period (such number of days being calculated on the basis of a 360 day year consisting of 12 months of 30 days each), divided by 360.

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

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

Payments of amounts due in respect of interest on the Preferred Securities will not be made at the specified office of any Paying and Conversion Agent in the United States (as defined in the Code (as defined in Condition 10.3) and any regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Preferred Securities when due at all the specified offices of the Paying and Conversion Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment is permitted by applicable United States law. If parts (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying and Conversion Agent with a specified office in New York City.

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

3.4 No Distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

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

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

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

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

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

4. LIQUIDATION DISTRIBUTION

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

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

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

5. CONVERSION

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

(a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with Condition 11 below (together, the **Trigger Event Notice**);

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

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

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

For the purposes of determining whether the Trigger Event has occurred, the Bank will (A) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (B) calculate and publish the CET1 ratio on at least a quarterly basis from (and including) 30 June 2014 onwards.

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

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

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

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

The Preferred Securities are not convertible into Common Shares at the option of Holders at any time and are not redeemable in cash as a result of the Trigger Event.

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

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

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

where:

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

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

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

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

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

where:

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

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

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

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

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

where:

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

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

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

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

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

Extraordinary Dividend means:

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

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

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

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

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

where:

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

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

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

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

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

(iv) In making any calculations for the purposes of this Condition 5.3(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (A) any consolidation or sub-division of any Common Shares or (B) the issue of Common Shares by way of capitalisation of profits or reserves (or any like or similar event) or (C) any increase in the number of Common Shares in issue in the Relevant Year in question.

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

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

where:

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

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

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

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

Such adjustment shall become effective on the Effective Date.

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

(e) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Common Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Common Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Common Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

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

Such adjustment shall become effective on the Effective Date.

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

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

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

where:

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

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

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

provided that if at the time of issue of such Common Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 5.3(f), the

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

Such adjustment shall become effective on the Effective Date.

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

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

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

where:

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

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

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

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

Such adjustment shall become effective on the Effective Date.

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

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

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

where:

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

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

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

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

Such adjustment shall become effective on the Effective Date.

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

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

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

where:

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

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

Such adjustment shall become effective on the Effective Date.

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

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

Notwithstanding the foregoing provisions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. OPTIONAL REDEMPTION

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

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

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

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

(b) the Bank has demonstrated to the satisfaction of the Regulator that its Tier 1 Capital and Tier 2 capital would, following such redemption, exceed the requirements laid down in Articcle 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV Directive by a margin that the Regulator may consider necessary on the basis of Article 104(3) of the CRD IV Directive.

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

Article 78(4) provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) (as described above), there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the Bank demonstrates to the satisfaction of the Regulator that the regulatory classification was not reasonably foreseeable at the Closing Date.

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

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

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

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

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

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

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

(a) Distributions on the Preferred Securities shall cease;

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

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

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

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

7. PURCHASES OF PREFERRED SECURITIES

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

Under the current Applicable Banking Regulations an institution requires the prior permission of the Regulator (article 77, b of CRR) to effect the repurchase of additional tier 1 instruments, and these may not be repurchased before five years after the date of issuance (Article 52.1(i) of CRR).

8. UNDERTAKINGS

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

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

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

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

    (i) admitted to the Relevant Stock Exchange; or

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

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

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

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

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

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

9. CONSTITUTION OF THE SYNDICATE AND EXERCISE OF RIGHTS BY HOLDERS OF PREFERRED SECURITIES

9.1 The Syndicate will be constituted by virtue of the registration of the Public Deed of Issuance in the Mercantile Registry of Cantabria before the Closing Date. The rules governing the functioning of the Syndicate and the rules governing its relationship with the Bank are contained in the regulations of the Syndicate (the **Regulations**) attached to the Public Deed of Issuance and its translation into English in the form scheduled to the Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Bank will appoint a temporary Commissioner for the Syndicate pursuant to the Public Deed of Issuance.

By acquiring a Preferred Security, 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 Preferred Security without becoming a member of the Syndicate. The provisions for meetings of the Syndicate are contained in the Regulations. The object and purpose of the Syndicate is to regulate the voting rights of the Holders 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.

Upon the subscription of the Preferred Securities, the temporary Commissioner will call a General Meeting of Holders to ratify or reject the acts of the temporary Commissioner, confirm its appointment or appoint a substitute Commissioner for it and to ratify the Regulations. Holders shall, by virtue of purchasing and/or holding Preferred Securities, be deemed to have granted to the Principal Paying Agent full power and authority to take any action and/or to execute and deliver any document or notices for the purposes of attending the first meeting of the Syndicate called to confirm the appointment of the temporary Commissioner, approve its actions and ratify the Regulations contained in the Agency Agreement, and vote in favour of each of those resolutions and/or approve the same by way of written resolution.

The Bank may, with the consent of the Principal Paying Agent and the Commissioner, but without the consent of the Holders amend these Conditions to (a) correct any manifest error, (b) make any amendment of a formal, minor or technical nature or to comply with mandatory provisions of law, or (c) make any amendment that is not prejudicial to the interests of the Holders. In addition, the Bank and the Holders, the latter with the sanction of a resolution of the Syndicate of Holders as set out in

Condition 9.3(a) below, may agree any modification, whether material or not, to these Conditions and any waiver of any breach or proposed breach of these Conditions.

9.2 The Holders will have no voting rights at any extraordinary or ordinary meetings of Shareholders of the Bank.

9.3 (a) Except as provided in Condition 9.1 above, any amendment to the terms and conditions of the Preferred Securities 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 (an **Extraordinary Resolution**).

(b) Any General Meetings of Holders may be called in accordance with article 9 of the Regulations. Such notice will also be published on the website of the Irish Stock Exchange (*www.ise.ie*) (so long as the Preferred Securities are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require).

(c) The Bank may without the consent or sanction of the Holders: (i) take any action required to issue additional Parity Securities or authorise, create and issue one or more other series of Parity Securities ranking equally with the Preferred Securities, as to the participation in the profits and/or assets of the Bank, without limit as to the amount; or (ii) take any action required to authorise, create and issue one or more other classes or series of shares of the Bank or securities mandatorily convertible into Common Shares of the Bank ranking junior to the Preferred Securities, as to the participation in the profits and/or assets of the Bank.

(d) By acquiring a Preferred Security, Holders agree to renounce any rights of seniority or preference that may be conferred upon it (if any) under applicable Spanish law over any holder of such other preferred securities issued by the Bank from time to time

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

9.5 Any modification, waiver or authorisation in accordance with this Condition 9 shall be binding on the Holders and shall be notified by the Bank to the Holders as soon as practicable thereafter through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 11 below.

9.6 The Preferred Securities do not grant their Holders pre-emption rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.

9.7 Neither the Bank nor any Subsidiary may issue, or guarantee the issue of, any Parity Securities or other instruments equivalent to Parity Securities ranking, either directly or through a guarantee, senior to the Preferred Securities, unless the terms and conditions of the Preferred Securities are amended so as to rank *pari passu* with any such issue of senior securities.

9.8 No vote in respect of the Preferred Securities will be required for the Bank to redeem and cancel the Preferred Securities.

9.9 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Bank nor any Subsidiary, to the extent that it is a holder of Preferred Securities of the Bank, shall be so entitled to vote.

10. TAXATION

10.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges (collectively **Taxes**) of whatever nature imposed or levied by or on behalf of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax (**Spain**), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required.

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

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

(b) to, or to a third party on behalf of, a Holder or to the beneficial owner in respect of whose Preferred Security the Bank does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to Law 13/1985 and Royal Decree 1065/2007, and any implementing legislation or regulation; or

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

(d) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(e) where the withholding or deduction referred to in Condition 10.1 is imposed on a payment to an individual and is required to be made pursuant to European

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

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

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

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

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

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

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

11. NOTICES

Notices, including notice of any redemption of the Preferred Securities, will be valid if published in a leading English language daily newspaper of general circulation in London (which is expected to be the Financial Times) or on the website of the Irish Stock Exchange (www.ise.ie) (so long as the Preferred Securities are listed on the Irish Stock Exchange and the rules of that exchange so require) or, in either case if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe.

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

Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the first date on which publication is made) or, as the case may be, on the fourth day after the date of such delivery to Euroclear and Clearstream, Luxembourg and any other relevant clearing system.

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

12. AGENTS

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

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, a successor agent bank, and additional or successor paying agents; provided, however, that the Bank will maintain (a) a Principal Paying Agent and an Agent Bank, (b) a Paying Agent (which may be the Principal Paying Agent) with a specified office in a European city, (c) so long as the Preferred Securities are listed on any stock exchange and/or quotation system and the rules of such listing authority, stock exchange and/or quotations system) so require, a Paying Agent (which may be the Principal Paying Agent) with a specified office in such place as may be required by the rules of such listing authority, stock exchange and/or quotation system, and (d) a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC, as amended, or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

13. PRESCRIPTION

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

14. GOVERNING LAW AND JURISDICTION

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

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid. To the extent permitted by law, nothing contained in this clause shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

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

DESCRIPTION OF THE ISSUER

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INFORMATION ABOUT THE ISSUER

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

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

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

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

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

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

(b) Date of incorporation and length of life

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

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

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

(c) Legal form and registration details

The Bank is domiciled in Spain and has the legal form of a 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, Santander. The headquarters of the Bank are located at Ciudad Grupo Santander, Avda. de Cantabria s/n, 28660 Boadilla del Monte, in the province of Madrid. The telephone number of the principal operating headquarters of the Bank is +34 91 259 6520.

(d) Merger of Banesto

On 17 December 2012, we announced that we had resolved to approve the plan for the merger by absorption of Banco Español de Crédito, S.A. (**Banesto**) and Banco Banif, S.A. as part of the restructuring of the Spanish financial sector. This transaction is part of a commercial integration which brought Banesto and Banif under the Santander brand.

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

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

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

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

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

On the 3rd of May, 2013, the public deed formalizing the merger by absorption of Banesto by Santander was registered with the Commercial Registry of Cantabria, and consequently, Banesto has disappeared. Besides, on the 7th of May, 2013, the public deed formalizing the merger by absorption of Banco Banif, S.A., Unipersonal by Santander was registered with the Commercial Registry of Cantabria, and consequently, Banco Banif, S.A., Unipersonal has disappeared.

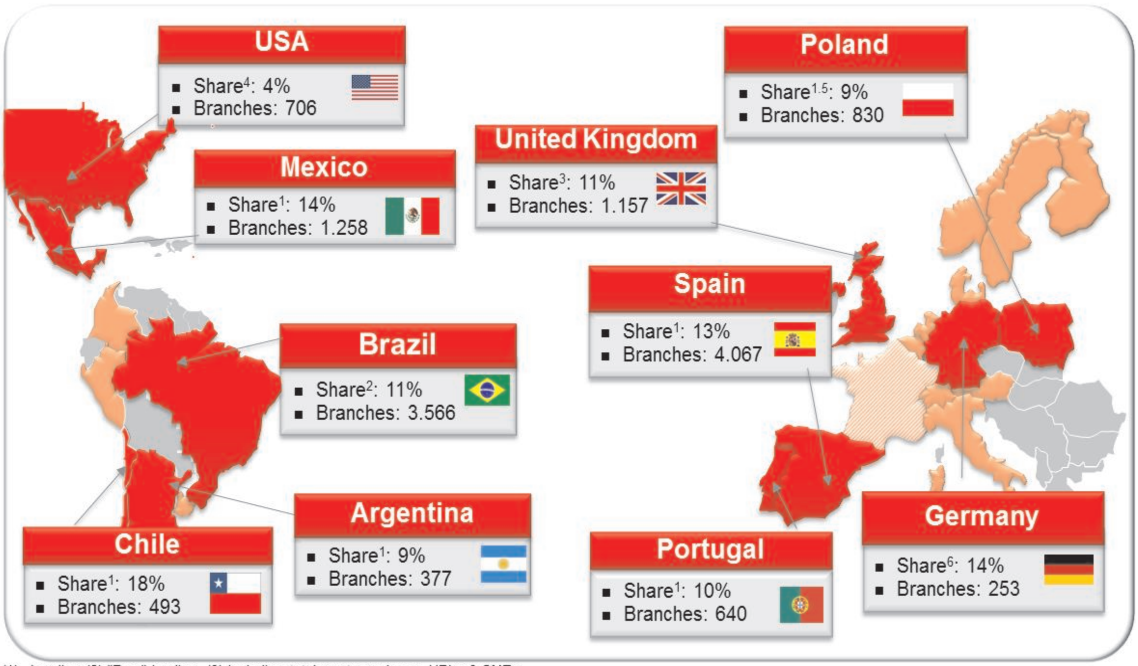
(e) Business model

The pillars on which the Group business model rests are:

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

The Group continues innovating and developing new financial products and services to provide customers with added value and meet their specific needs in the different markets (for example, Conta Light in Brazil, 1|2|3 current account in the UK, the contactless card in Spain, among others). Customer satisfaction is a strategic business variable that contributes to sustainable growth, and service quality is therefore a corporate value. In this respect the commercial banking division was set up with the objective of improving capabilities and harnessing opportunities for the growth in all countries. It promotes the exchange of experiences and gathers best commercial and business practices in order for them to be disseminated, shared and adopted by other countries or areas.

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



(1) Lending (2) "Free" lending (3) Including total mortgage loans, UPLs & SMEs
(4) Branches in North Eastern US
(5) Includes SCF businesses (6) Term loans (new loans) 3Q13 according to Bankenfachverband
Note: Latest available data

- The Group has a **model of subsidiaries that are autonomous** in terms of capital and liquidity, which brings benefits when it comes to funding and limits the risk of contagion. This model generates incentives for local management while limiting the possibility of contagion among Group units in times of crisis, thereby reducing systemic risk.

- The Group has a **medium-low risk profile** and the commercial banking business accounts for over 80% of the risks.

- **Discipline in risks, liquidity and capital**. The strengthening of these three variables is a priority of the Group's management. During the crisis the Group has made a big write-down effort, which will enable it to harness the opportunities of the current climate from a sound position.

  It has improved its liquidity ratios, achieving a net loan-to-deposit ratio of 109%. This means that most of its lending is funded by customer deposits, while it maintains ample access to wholesale funding, and has available a wide range of instruments and markets for obtaining liquidity.

  As for capital, the Bank's solvency levels are constantly improving and were up for the seventh year running in 2013. The Basel II core capital ratio was 11.71% at the end of December 2013. The Group has passed four stress tests with very satisfactory results, and is one of the banks with the greatest profit- and capital-generating ability in adverse scenarios.

- Ongoing efforts to improve **operating and commercial efficiency**. The Bank focuses its efforts on improving processes, the business support areas and direct customer service. The recurring growth of income, the cost control culture and the high productivity of the branches gave the Group an efficiency ratio of under 50% at 2013 year end.

- The **Santander brand** is the sixth most valuable global financial brand according to the Brand Finance league table for 2013. The corporate slogan: "*Santander a bank for your ideas*" places the customer even more clearly at the heart of the Bank's strategy. In this respect, the objective of Santander Brand Experience is to develop an own-brand experience that enables customers to perceive in each and every one of their interactions with the Bank the value that the Group provides them with to materialise their ideas.

- The 183,000 **professionals** who make up the Santander team worldwide are a key pillar of the business model. The strategic elements of the people model at the Group are talent, knowledge, culture and innovation.

- The Group **does business sustainably**, preserving the environment, giving support to the community in the countries where it operates and investing in higher education. An example of this is the prize of "*global sustainable bank of the year*" that Banco Santander received in June 2013 in the eighth year of the prestigious Sustainable Finance Awards run by the Financial Times and the International Finance Corporation.

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

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

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

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

(f) Review of the year

In a year in which the environment was once again complex in several of the markets where it operates, the Group has shown that its business model is strong in all phases of the cycle, and it continues to generate high recurring earnings.

The highlights of the Group management in 2013 were:

- **Strong earnings**. In recent years, despite the difficult climate, the Group has demonstrated its strong ability to generate recurring earnings, based on geographical diversification and management approaches adapted to each market. This has enabled it to obtain profits throughout all the years of crisis, and it is one of the few of the world's big banks that has not booked a loss in any quarter.

  The Group obtained attributable profit of EUR 4,370 million in 2013, which was 90.5% more than in 2012, primarily because of the reduced need for write-downs.

  This growth was achieved with an improvement in the basic trends as the year progressed, which was reflected in greater stability of commercial income, with net interest income and fees and commissions that rose in the fourth quarter, and a decrease in provisions and the cost of lending quarter by quarter.

- The **strengthening of the balance sheet continued** thanks to the high level of income. After the sizeable write-downs booked in 2012 (EUR 18,806 million), the Group allocated EUR 11,073 million to specific credit loss provisions in 2013, enabling it to face a new scenario of greater economic growth from a strong position and with a healthy balance sheet.

  This provisioning effort has been combined with a strategy of reducing property exposure in Spain. The real estate operations discontinued in Spain business area brought the balance sheet down by EUR 1,496 million (12%) in the year. As a result, the decrease since December 2008 amounts to EUR 30,000 million (-73%).

  The Group has more than doubled the coverage of its lending portfolio during the crisis and has a ratio that is higher than the average for the big European banks.

  Noteworthy is the sale to Apollo Global Management of a stake in the Altamira platform, which handles loan recoveries for Banco Santander S.A. in Spain and manages and markets real estate assets related to this activity, in order to continue reducing the property exposure of the balance sheet in the most efficient manner. Following this transaction, the real estate assets and credit portfolio will remain on Banco Santander's balance sheet, while the assets will be managed from the platform controlled by the purchaser, Apollo.

- **Sound Group funding structure and improved liquidity ratios**. An improved liquidity position has been a priority for the Group's strategy in recent years and has been achieved thanks to the capacity of the Bank's extensive branch network to raise funds in the retail market, its broad and diversified access to the wholesale markets through its model of subsidiaries, and the current situation of less need for funding in some markets due to the process of deleveraging that is under way in them. This deleveraging process in mature markets is reflected in the reduction of the balance sheet credit risk.

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

– At Group level, the loan-to-deposit ratio ended the year at 109% (compared with 113% in December 2012 and 150% in December 2008), the structural liquidity surplus topped EUR 150,000 million and the liquidity reserve stood at EUR 200,000 million.

– The liquidity management by subsidiaries enabled the Group to continue to apply a conservative strategy in the year, which took the form of launching medium- and long-term issues amounting to EUR 22,540 million and securitisations amounting to EUR 6,273 million.

- **High Group solvency**, illustrated by the fact that the core capital again improved for the seventh year in a row. With this increase the core capital ratio according to the BIS II international standard ended 2013 at 11.71% compared with 10.33% in 2012.

- **Shareholder pay-out**. Santander again provided shareholders with a total pay-out of EUR 0.60 per share under its Santander Dividendo Elección scrip dividend scheme in the four quarterly payments (including the implementation of the scheme that will foreseeably take place in April/May 2014), signifying a return of 10% in the year (pay-out / average market price). This scheme offers shareholders the option of choosing whether to receive the dividend in cash or in shares. The average degree of acceptance of the option of receiving the dividend in shares in the payments made in 2013 was 87%.

- In addition, with the aim of achieving the **best positioning** in the current climate, the Group took a series of initiatives, including most notably the following:

  – Adaptation to the competitive environment in Spain. The integration of Banesto and Banif in Banco Santander, which is progressing ahead of schedule, thereby bringing forward the cost synergies. The objective is to gain market share in Spain by offering a wider range of products and better service quality.

  – The integration of Kredyt Bank S.A. in Poland is making very satisfactory progress with the rebranding of the branch offices and the technology integration now complete.

  – In the United States, where the installed capacity is being increased and the commercial capabilities are being enhanced, the Santander brand has been adopted and the rebranding of branch offices has been completed.

  – In the consumer finance business, the Group and El Corte Inglés reached a strategic agreement for Santander Consumer Finance to acquire a 51% stake in Financiera El Corte Inglés. This agreement is expected to take effect in the first quarter of 2014.

– The Group has signed an agreement with subsidiaries of Warburg Pincus and General Atlantic to promote the global development of the Santander Asset Management unit. After this transaction, Warburg Pincus and General Atlantic have a joint 50% stake in the holding company that integrates the Santander Asset Management management companies. The other 50% will be owned by the Group.

– Sale of a stake in Altamira.

All of these transactions enabled the Bank to end the year well-placed to harness opportunities for growth in the coming years.

(g) Earnings

The 2013 earnings performance as compared with 2012 is shown below.

Condensed consolidated statements of income

Millions of euros

	2013	2012
Interest and similar income	51,447	58,791
Interest expense and similar charges	(25,512)	(28,868)
NET INTEREST INCOME	**25,935**	**29,923**
Income from equity instruments	378	423
Share of results of entities accounted for using the equity method	500	427
Fee and commission income	12,473	12,732
Fee and commission expense	(2,712)	(2,471)
Gains/(losses) on financial assets & liabilities, net	3,234	3,329
Exchange differences (net)	160	(189)
Other operating income	5,903	6,693
Other operating expenses	(6,194)	(6,583)
GROSS INCOME	**39,677**	**44,284**
Administrative expenses	(17,451)	(17,801)
Staff costs	(10,069)	(10,306)
Other general administrative expenses	(7,382)	(7,495)
Depreciation & amortisation charge	(2,392)	(2,183)
Provisions (net)	(2,182)	(1,478)
Impairment losses on financial assets, net	(11,227)	(18,880)
PROFIT FROM OPERATIONS	**6,425**	**3,942**
Impairment losses on non-financial assets (net)	(503)	(508)
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	2,152	906
Negative difference on business combinations	—	—
Gains/(losses) on disposal of non-current assets held for sale not classified as discontinued operations	(422)	(757)
PROFIT BEFORE TAX	**7,652**	**3,583**
Income tax	(2,113)	(590)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**5,539**	**2,993**
Profit/(loss) from discontinued operations, net	(15)	70
CONSOLIDATED PROFIT FOR THE YEAR	**5,524**	**3,063**
Profit attributable to the parent	4,370	2,295
Profit attributable to non-controlling interests	1,154	768

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

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

Condensed income statement - Directors' report

Millions of euros

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

The Group obtained attributable profit of EUR 4,370 million in 2013, 90.5% more than in 2012.

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

- The climate of macroeconomic slowdown and record low interest rates after appreciable decreases in some countries in which the Group was operating. This is combined with the strategy followed by the Group of giving preference to capital and liquidity, with the consequent impact of them on earnings, mainly in the form of financial cost.

- In 2012 substantial additional write-downs were booked for property risk in Spain, which had a significant impact on the year's financial statements.

- A net negative effect on attributable profit of EUR 368 million (a decrease of 16 percentage points) due to the change in the scope of consolidation because of the difference between:

  – a positive effect due to the inclusion of Kredyt Bank S.A.

  – a negative effect due to the removal of the Colombia subsidiary in the second quarter of 2012, the smaller contribution of earnings from entities accounted for using the equity method (due to the reinsurance of the individual life risk portfolio of the Santander insurance companies in Spain and Portugal), the increase in non-controlling interests at the subsidiaries in Mexico and Poland, and the lower earnings obtained at the Insurance unit due to the implementation of the operation with Aegon.

- The impact of the exchange rates of the various currencies against the euro was 6 negative percentage points for the Group as a whole in the comparison of income and costs year on year. By country, the main negative impacts were in Brazil (-12 percentage points), the United Kingdom and Chile (-5 percentage points each), and the United States (-3 percentage points).

Exchange rates: Parity 1 euro = currency

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

Breakdown of the main lines of the income statement

The gross income amounted to EUR 39,753 million, a decrease of 8.4% from 2012 (-2.2% disregarding the effects of the changes in exchange rates).

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

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

Average balance sheet - assets and interest income

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

The average balance of earning assets in 2013 was EUR 1,123,000 million, which was 6% less than in 2012.

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

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

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

Average balance sheet - liabilities and interest expense

LIABILITIES & SHAREHOLDERS' EQUITY	2013			2012		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions of euros, except percentages)					
Deposits from credit institutions						
Domestic	21,654	335	1.55%	55,339	761	1.38%
International	107,956	1,635	1.51%	99,347	1,720	1.73%
	129,610	**1,970**	**1.52%**	**154,686**	**2,481**	**1.60%**
Customer deposits						
Domestic	173,833	3,053	1.76%	153,399	2,850	1.86%
International	458,506	11,752	2.56%	482,952	13,554	2.81%
	632,339	**14,805**	**2.34%**	**636,351**	**16,404**	**2.58%**
Marketable debt securities						
Domestic	83,445	2,993	3.59%	95,054	3,175	3.34%
International	105,509	3,886	3.68%	109,647	4,102	3.74%
	188,954	**6,879**	**3.64%**	**204,701**	**7,277**	**3.55%**
Subordinated liabilities						
Domestic	8,547	496	5.80%	10,409	637	6.12%
International	8,098	764	9.43%	10,830	1,013	9.35%
	16,645	**1,260**	**7.57%**	**21,239**	**1,650**	**7.77%**
Other interest-bearing liabilities						
Domestic	75,386	962	1.28%	91,492	1,113	1.22%
International	57,778	1,064	1.84%	63,062	684	1.08%
	133,164	**2,026**	**1.52%**	**154,554**	**1,797**	**1.16%**
Expenses from hedging transactions						
Domestic		-1,138			-974	
International		-290			234	
		-1,428			**-740**	
Total interest-bearing liabilities						
Domestic	362,865	6,701	1.85%	405,693	7,561	1.86%
International	737,847	18,811	2.55%	765,838	21,307	2.78%
	1,100,712	**25,512**	**2.32%**	**1,171,531**	**28,868**	**2.46%**
Other liabilities	**31,830**			**33,954**		
Non-controlling interests	**10,066**			**8,424**		
Shareholders' equity	**71,591**			**72,688**		
Liabilities from discontinued operations	-			-		
Total average liabilities and shareholders' equity	**1,214,199**	**25,512**		**1,286,597**	**28,868**	

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

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

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

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

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

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

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

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

Interest expense	2013/2012 Increase (decrease) due to changes in		
	Volume	Rate	Net variation
	(in millions of euros)		
Deposits from credit institutions			
Domestic	(511)	85	(426)
International	141	(226)	(85)
	(370)	**(141)**	**(511)**
Customer deposits			
Domestic	365	(162)	203
International	(664)	(1,138)	(1,802)
	(299)	**(1,300)**	**(1,599)**
Marketable debt securities			
Domestic	(406)	224	(182)
International	(153)	(63)	(216)
	(559)	**161**	**(398)**
Subordinated liabilities			
Domestic	(109)	(32)	(141)
International	(258)	9	(249)
	(367)	**(23)**	**(390)**
Other interest-bearing liabilities			
Domestic	(204)	54	(150)
International	(62)	442	380
	(266)	**496**	**230**
Total interest-bearing liabilities excl. hedging transactions			
Domestic	(865)	169	(696)
International	(996)	(976)	(1,972)
	(1,861)	**(807)**	**(2,668)**
Expenses from hedging transactions			
Domestic	(164)	0	(164)
International	(524)	0	(524)
	(688)	**0**	**(688)**
Total interest-bearing liabilities			
Domestic	(1,029)	169	(860)
International	(1,520)	(976)	(2,496)
	(2,549)	**(807)**	**(3,356)**

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

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

Gains on financial assets and liabilities were up by 28.6%, due to GBM Europe and active management of balance sheet interest rate risk.

The share of results of entities accounted for using the equity method, where the contributions to the Group of Santander Consumer USA and the results of corporate transactions in the insurance business in Europe and Latin America are booked, rose by 17.1%.

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

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

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

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

Impairment losses on other assets and Other income were negative by an amount of EUR 1,785 million, compared with the negative figure of EUR 2,302 million in 2012.

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

However, in 2012 the difference between capital gains (EUR 1,064 million) and property write-downs (EUR 4,111 million) was negative by EUR 3,047 million. After this, the attributable profit was up by 90.5%.

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

(h) Balance sheet

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

Condensed balance sheet - Directors' report

Millions of euros

	31.12.13	31.12.12
Assets		
Cash and balances with central banks	77,103	118,488
Financial assets held for trading	115,287	177,917
Debt instruments	40,841	43,101
Loans and advances to customers	5,079	9,162
Equity instruments	4,967	5,492
Trading derivatives	58,899	110,319
Loans and advances to credit institutions	5,503	9,843
Other financial assets at fair value	31,381	28,356
Loans and advances to customers	13,196	13,936
Other (loans and advances to credit institutions, debt instruments and other equity instruments)	18,185	14,420
Available-for-sale financial assets	83,799	92,267
Debt instruments	79,844	87,724
Equity instruments	3,955	4,542
Loans and receivables	714,484	756,858
Loans and advances to credit institutions	56,017	53,785
Loans and advances to customers	650,581	696,013
Debt instruments	7,886	7,059
Investments	5,536	4,453
Tangible and intangible assets	16,613	17,296
Goodwill	23,281	24,626
Other assets	48,151	49,338
Total assets	**1,115,637**	**1,269,598**
Liabilities and equity		
Financial liabilities held for trading	94,672	143,241
Customer deposits	8,500	8,897
Marketable debt securities	1	1
Trading derivatives	58,887	109,743
Other	27,285	24,600
Other financial liabilities at fair value	42,311	45,418
Customer deposits	26,484	28,638
Marketable debt securities	4,086	4,904
Deposits from central banks and credit institutions	11,741	11,876
Financial liabilities at amortised cost	863,115	959,321
Deposits from central banks and credit institutions	86,323	131,670
Customer deposits	572,853	589,104
Marketable debt securities	171,390	201,064
Subordinated liabilities	16,139	18,238
Other financial liabilities	16,410	19,245
Liabilities under insurance contracts	1,430	1,425
Provisions	14,474	16,148
Other liabilities	19,735	22,771
Total liabilities	**1,035,736**	**1,188,324**
Shareholders' equity	84,740	81,333
Share capital	5,667	5,161
Reserves	75,109	74,528
Profit attributable to the Group	4,370	2,295
Less: Dividends & remuneration	*(406)*	*(650)*
Valuation adjustments	(14,152)	(9,474)
Non-controlling interests	9,313	9,415
Total equity	**79,900**	**81,275**
Total liabilities and equity	**1,115,637**	**1,269,598**

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

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

Exchange rates: Parity 1 euro=currency

	Final exchange rate (balance sheet)	
	31.12.13	31.12.12
US dollar	1.3791	1.3194
Pound sterling	0.8337	0.8161
Brazilian real	3.2576	2.7036
Mexican peso	18.0731	17.1845
Chilean peso	724.5791	631.7287
Argentine peso	8.9900	6.4865
Polish zloty	4.1543	4.0740

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

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

Loans and advances to customers
Millions of euros

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

Loans maturing in over 1 year at 31 December 2013

	Domestic		International		TOTAL	
	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total
Fixed rate	21,904	16%	145,514	39%	167,419	33%
Floating rate	111,286	84%	225,301	61%	336,587	67%
TOTAL	**133,190**	**100%**	**370,815**	**100%**	**504,005**	**100%**

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

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

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

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

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

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

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

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

Customer funds under management
Millions of euros

	31.12.13	31.12.12
Resident public sector	7,745	8,487
Other resident sectors	161,649	157,011
Demand deposits	74,969	71,526
Time deposits	80,146	75,414
Other deposits	6,535	10,071
Non-resident sector	438,442	461,141
Demand deposits	245,582	228,698
Time deposits	146,433	179,503
Other deposits	46,427	52,940
Customer deposits	**607,836**	**626,639**
Marketable debt securities*	175,477	205,969
Subordinated liabilities	16,139	18,238
On-balanace sheet customer funds	**799,452**	**850,846**
Investment funds	93,304	89,176
Pension funds	10,879	10,076
Assets under management	20,987	18,889
Other customer funds under management	**125,169**	**118,141**
Customer funds under management**	**924,621**	**968,987**

* Includes retail commercial paper in Spain (millions of euros): 3,553 in December 2013 and 11,536 in December 2012
** Includes investment and pension funds marketed

Within the customer funds, deposits (including retail commercial paper in Spain and financial bills in Brazil, and excluding repos), investment funds and pension funds rose 2%, disregarding the effect of exchange rate variations. Broken down, deposits remained stable year on year, whereas investment funds and pension funds increased by 14% and 8%, respectively.

In Continental Europe performance at the main units was as follows:

- Spain was up by 1% year on year, with a big impact from the decrease in costly institutional balances. Disregarding this, retail balances increased by 10,000 million, including a 29% rise in investment funds that consolidated the Group's lead in these funds. This strong expansion was due to the strategy of reducing expensive deposits and increasing the marketing of investment funds, and was favourably impacted by the performance of stock markets in the year. Lastly, pension funds rose by 8%.

- In Portugal customer deposits excluding repos were down by 4% due to the greater focus placed on their cost, and this is reflected in the fall in time deposits. Investment funds fell 32%, whereas pension funds rose 8%. The overall result was a decrease of 5%.

- Deposits in Poland increased by 69% in local currency, assisted by the entry of Kredyt Bank S.A. With no changes in the scope of consolidation they rose by 1% as a result of the active management of funds which translated into a reduction of costly deposits at Kredyt Bank S.A. and an increase in investment funds (+12%).

- Lastly, Santander Consumer Finance was down by 3% due to Germany, which accounted for 89% of the area's deposits, as a result of the policy of reducing higher-cost balances. Italy and the Nordic countries recorded strong growth, albeit on very modest figures.

In the United Kingdom customer deposits excluding repos (in pounds sterling) were down by 3% due to the strategy of replacing more costly and volatile deposits with others with greater potential for customer loyalty. Accordingly, demand and savings deposits grew by 5% year on year due to the increase in demand accounts as a result of the marketing of products in the 1|2|3 range, which partially compensated for the reduction in time deposits. Investment funds fell by 29%.

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

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

Millions of euros

	31.12.13	31.12.12
Debt instruments	79,844	87,724
Equity instruments	3,955	4,542
Total	**83,799**	**92,267**

(i) Business Areas

CONTINENTAL EUROPE

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

Strategy

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

Business activities and earnings

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

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

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

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

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

- **Spain**

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

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

  Strategy

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

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

  Business activities and earnings

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

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

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

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

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

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

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

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

- **Portugal**

The year showed some economic recovery, although at moderate rates. After the highest quarterly growth in the second quarter of 2013 (+1.1%), GDP grew 0.2% in the third quarter, based on the recovery of domestic demand, particularly private consumption and investment, confirming a sustainable trend of gradual emergence out of the recession.

Strategy

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

Business activities and earnings

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

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

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

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

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

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

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

Strategy

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

Business activities and earnings

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

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

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

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

- **Santander Consumer Finance**

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

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

Strategy

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

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

Business activities and earnings

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

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

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

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

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

Lastly, the United Kingdom unit (included for accounting purposes in Santander UK) performed strongly once again and obtained attributable profit of EUR 101 million. Including this result, the total attributable profit of Santander Consumer Finance would be EUR 895 million.

- **Real estate operations discontinued in Spain**

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

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

– The net loans totalled EUR 5,735 million, a drop of EUR 1,563 million (21%) year on year. Their total credit coverage, including the outstanding balance, was 49%.

– The net foreclosed assets ended 2013 at EUR 3,600 million, after decreasing EUR 76 million (2%) in twelve months. These assets have a coverage allowance of EUR 4,390 million, equivalent to 55% of the gross assets.

– Lastly, the value of the investments in Metrovacesa, S.A. and Sareb was EUR 1,446 million.

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

UNITED KINGDOM (changes in local currency)

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

Strategy

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

Business activities and earnings

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

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

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

In 2013 the profit from continuing operations was GBP 984 million, an increase of 26.7% on 2012. The attributable profit after discontinued operations (the card business sold in the second quarter of 2013) was EUR 976 million (up by 16.4%).

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

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

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

LATIN AMERICA (changes in constant currency)

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

Strategy

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

Business activities and earnings

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

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

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

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

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

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

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

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

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

Strategy

The Bank's strategy rests on the following pillars: increased customer satisfaction, greater efficiency, emphasis of the business on greater diversification of income with stringent risk management at all stages of the cycle, and capital discipline.

Business activities and earnings

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

In 2013, Santander Brasil obtained attributable profit of EUR 1,577 million, a decrease of 17.8% year on year in local currency.

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

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

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

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

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

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

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

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

Strategy

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

Business activities and earnings

Lending rose by 12%. Deposits excluding repos rose by 4%, since the fall in time deposits was offset by a 21% increase in demand deposits.

The attributable profit of EUR 713 million was 29.2% less than in 2012. Before non-controlling interests the decrease was 12.2%.

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

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

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

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

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

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

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

Strategy

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

Business activities and earnings

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

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

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

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

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

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

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

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

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

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

UNITED STATES (changes in local currency)

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

Strategy

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

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

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

Business activities and earnings

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

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

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

CORPORATE ACTIVITIES

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

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

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

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

BREAKDOWN BY BUSINESS (changes in constant currency)

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

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

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

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

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

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

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

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

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

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

(j) Significant events after the reporting period

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

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

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

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

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

– In March 2014, the Issuer issued €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities with Merrill Lynch International, Citigroup, Banco Santander, S.A. and UBS Limited as lead managers of the issue.

– On 7 April 2014, the Group announced that it has reached an agreement for the acquisition, through its investee company Santander Getnet Serviços para Meios de Pagamento Socidade Anónima, of 100% of the company Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H. ("**Getnet**") for an amount of 1,104 million Reales (approximately 353 million euros). Following the acquisition, Banco Santander (Brasil) S.A. will hold indirectly an 88.5% stake in Getnet. It is expected that the transaction (which is subject to regulatory authorisation) will be concluded during the second half of 2014.

– At its meeting of 10 April 2014, 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 EUR 0.149 per share, in shares or cash.

– On April 29, 2014 the Group announced that Banco Santander's Board of Directors resolved to make an offer to acquire all shares of Banco Santander Brasil not already held by Grupo Santander, representing approximately 25% of Santander Brasil's share capital. The transaction would be paid for with up to 665 million shares of Banco Santander (parent company), equivalent to €4,686 million.

Santander Brazil would remain listed on the Sao Paulo stock exchange and Banco Santander's shares (parent company) would be listed on that market as well.

The offer will be subject to customary conditions for this type of transactions, including the granting of the relevant regulatory authorizations and approval at Santander Brazil's and Banco Santander's General Shareholders' meeting.

(k) Significant new products and/or activities

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

- The launch of *Santander Trade*, a unique portal in the financial system that helps companies win international business by bringing opportunities closer to the business community.
- The launch in the US, coinciding with the rebranding, of the *Extra20 checking account*, which credits customers with $20 every month if they have $1,500 of income domiciled in their account and have two or more direct debits via Santander's online bank.
- The success of the *1|2|3* range of products in the UK, which won 1.1 million new customers in 2013 to reach a total of 2.4 million people closely linked to the Bank. The *1|2|3* current account reimburses in cash part of household bills and rewards larger balances with higher interest rates. Similar products were launched in Spain and Poland.

Marketing of products and services

Policies

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

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

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

Governance and organization

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

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

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

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

- Each product or service is sold by suitable staff.
- Customers are provided with the necessary and adequate information.
- The product or service is adjusted to the customer's risk profile.
- Each product of service is assigned to the right market, not only for legal or tax reasons, but also to meet the market's financial culture.
- The products and services fulfil the requirements of the corporate marketing policies and, in general, the applicable internal and external rules.

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

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

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

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

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

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

Main actions

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

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

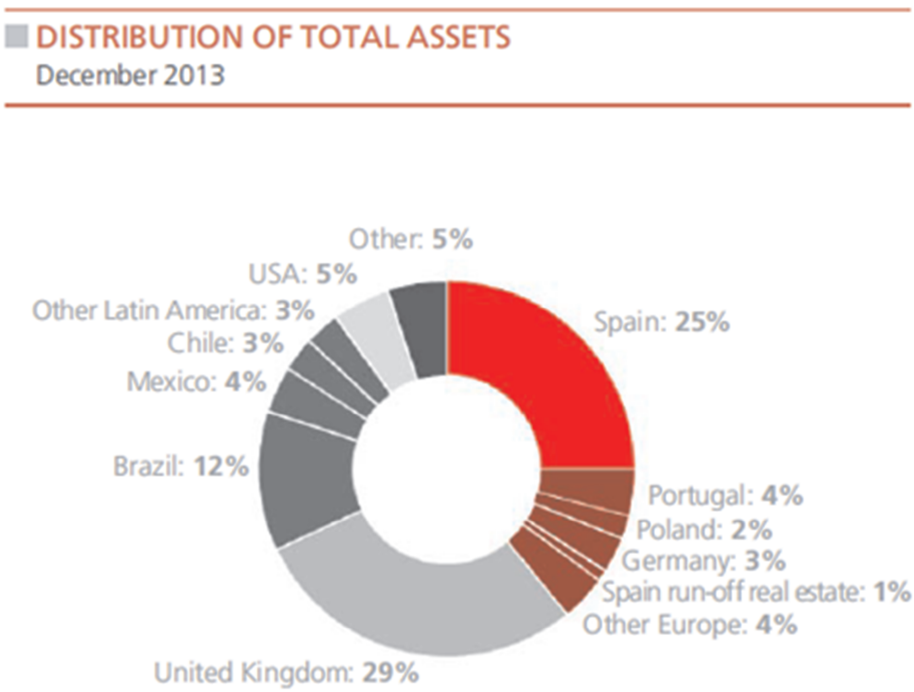
The CMC held 41 meetings in 2013 (44 in 2012 and 42 in 2011) at which incidents were resolved and information analyzed on the monitoring of products and services, at both the local level as well as the Group's units abroad.

(l) Principal Markets: brief description of the principal markets in which the Issuer competes

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

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

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



(m) Organisational Structure

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

(n) Trend Information

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

- a continued downturn in the Spanish and the United Kingdom real estate markets, and a corresponding increase in mortgage defaults, which could impact our NPL and decrease consumer confidence and disposable income;
- uncertainties relating to economic growth expectations and interest rates cycles, especially in the United States, Spain, the United Kingdom, other European countries, Brazil and other Latin American countries, and the impact they may have over the yield curve and exchange rates;
- the continued effect of the global economic slowdown on Europe and the U.S. and fluctuations in local interest and exchange rates;
- continued changes in the macroeconomic environment, such as sustained unemployment above historical levels, could further deteriorate the quality of our customers' credit;
- increases in our cost of funding, as a result of the fragility of the Spanish, Portuguese, Irish and Greek economies, further downgrades in our credit rating or otherwise, could adversely affect our net interest margin as a consequence of timing differences in the repricing of our assets and liabilities;
- the effects of withdrawal of significant monetary and fiscal stimulus programs and uncertainty over government responses to growing public deficits;
- continued instability and volatility in the financial markets;
- a drop in the value of the euro relative to the US dollar, the sterling pound or Latin American currencies;
- inflationary pressures, particularly in Latin America, because of the effect they may have in relation to increases of interest rates and decreases of growth;
- increased consolidation of the global financial services sector, which could further reduce our spreads;

- although it is foreseeable that entry barriers to domestic markets in Europe will eventually be lowered, our possible plans of expansion into other markets could be affected by regulatory requirements of the national authorities of these countries;

- acquisitions or restructurings of businesses that do not perform in accordance with our expectations or that subject us to previously unknown risks;

- increased regulation, government intervention and new laws prompted by the financial crisis which could change our industry and require us to modify our businesses or operations; and

- the risk of further reductions in liquidity and increases of credit spreads as a consequence of the crisis in the financial markets, which could affect not only our cost of funding but also the value of our proprietary portfolios and our assets under management.

(o) Administrative, Management and Supervisory Bodies

The By-laws of the Issuer (Article 41) provide that the maximum number of Directors is 22 and the minimum number 14.

The Board of Directors of the Issuer is presently made up of 16 directors.

The following table displays the composition, position and structure of the Board of Directors and its Committees.

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

Board of directors	Executive committee	Risk committee	Audit and compliance committee	Appointment and remuneration committee	International committee	Technology, productivity and quality committee	Executive	External	Date of first appointment
Chairman Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	C				C	C			04.07.1960
Chief Executive Officer Mr. Javier Marín Romano									29.04.2013
First Deputy Chairman Mr. Fernando de Asúa Álvarez		V		C				I	17.04.1999
Second Deputy Chairman Mr. Matías Rodríguez Inciarte		C							07.10.1988
Third Deputy Chairman Mr. Guillermo de la Dehesa Romero			C					I	24.06.2002

Members									
Ms. Sheila C. Bair								I	27.01.2014
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea									04.02.1989
Mr. Javier Botín-Sanz de Sautuola y O´Shea (1)								P	25.07.2004
Mr. Vittorio Corbo Lioi								E	22.07.2011
Mr. Rodrigo Echenique Gordillo								E	07.10.1988
Ms. Esther Giménez-Salinas i Colomer								I	30.03.2012
Mr. Ángel Jado Becerro de Bengoa								I	11.06.2010
Mr. Abel Matutes Juan								I	24.06.2002
Mr. Juan Rodríguez Inciarte									28.01.2007
Ms. Isabel Tocino Biscarolasaga								I	26.03.2007
Mr. Juan Miguel Villar Mir								I	07.05.2013

General Secretary and of the Board Mr. Ignacio Benjumea Cabeza de Vaca (2)									

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

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

(2) Not director.

(p) Principal Activities Outside the Issuer

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

Directors	Company Name	Functions
Mr. Emilio Botín Sanz de Sautuola y García de los Ríos	Santander Investment, S.A.	Chairman*
	Portal Universia, S.A.	Chairman*
	Portal Universia Portugal, Prestaçáo de Serviços de Informática, S.A.	Chairman*
	Universia México, S.A. de C.V.	Chairman*
	Portal Universia Argentina S.A.	Honorary Chairman*
	Universia Colombia, S.A.	Chairman*
	Universia Perú, S.A.	Chairman*
	Universia Puerto Rico, Inc	Chairman*
	Universia Holding, S.L.	Chairman*
	Universia Brasil, S.A.	Chairman*
	Bansalud, S.L.	Chairman*
Mr. Fernando de Asúa Álvarez	Técnicas Reunidas, S.A.	Vice Chairman*
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	Director*
	U.C.I., S.A.	Chairman*
	Operador del Mercado Ibérico de Energía Polo Español, S.A.	Director*
	Sanitas, Sociedad Anónima de Seguros	Director*
Mr. Guillermo de la Dehesa Romero	Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros	Chairman*

Directors	Company Name	Functions
	Aviva Grupo Corporativo, S.L.	Chairman*
	Campofrío Food Group, S.A.	Director*
	Amadeus IT Holding, S.A.	Vice Chairman*
	Grupo Empresarial San José, S.A.	Director*
Mr. José Javier Marín Romano	Santander Investment, S.A.	Vice Chairman*
	Allfunds Bank, S.A.	Director*
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Santander UK plc	Chief Executive Officer
	Ingeniería de Software Bancario, S.L.	Chairwoman*
	SAM Investment Holdings Limited	Director*
	The Coca-Cola Company	Director*
Mr. Javier Botín Sanz de Sautuola y O'Shea	JB Capital Markets, S.V., S.A.	Chairman and Chief Executive Officer
Mr. Vittorio Corbo Lioi	Banco Santander Chile, S.A. - Chile	Chairman*
	Grupo Financiero Santander-Mexico, S.A.B, de C.V.	Director*
	Banco Santander (Mexico), S.A.	Director*
	Casa de Bolsa Santander, S.A., de C.V.	Director*
	Santander Consumo, S.A. de C.V., Sofom.e.r	Director*
	Santander Hipotecario, S.A. de C.V., Sofom.e.r	Director*
	Empresa Nacional de Electricidad, S.A., Chile	Director*
	Compañía de Seguros Sura-Chile, S.A.	Chairman*
	CCV, S.A.	Director*
Mr. Rodrigo Echenique Gordillo	Santander Private Real Estate Advisory, S.A.	Chairman*
	Allfunds Bank, S.A	Chairman*
	Santander Investment, S.A.	Director*
	Banco Santander International	Director*
	Universia Holding, S.L.	Director*
	NH Hoteles, S.A.	Chairman*
	Vocento, S.A.	Chairman*
Ms. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	Director*
Mr. Ángel Jado Becerro de Bengoa	Cartera Mobiliaria, S.A., SICAV	Director*
Mr. Abel Matutes Juan	FST Hotels, S.L.	Chairman
	Fiesta Hotels Group & Resorts, S.L.	Chairman
	FCC Construcción, S.A.	Director*
	Balearia Eurolíneas Marítimas, S.A.	Director
Mr. Juan Rodríguez Inciarte	Santander UK PLC	Vice Chairman*
	Santander Consumer Finance, S.A.	Director*
	SAM Investment Holding Limited	Director
	Vista Capital de Expansión, S.A., SGECR	Director*
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	Director*
Mr. Juan Miguel Villar Mir	Obrascón Huarte Laín, S.A. (OHL)	Chairman
	Abertis Infraestructuras, S.A.	Attorney

* Non-executive

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.

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

- Without the participation of the director and following a report from the appointments & remuneration committee, the board authorized the purchase, under market conditions, of shares representing up to 0.25% of the Bank's capital by Espacio Activos Financieros, S.L.U., a company controlled indirectly by Mr. Juan Miguel Villar Mir.

- Additionally, directors abstained from participating in and voting on 103 instances, 29 of such occasions referred to proposals to appoint or re-elect directors. 26 occasions involved the approval of conditions relating to remuneration and other terms of the contracts of Directors, including the authorisation of the financing policy for executive directors. 18 cases were related to the suitability evaluation which the Bank, as a credit institution, has to carry out on the members of its board of directors and other key executives, according to Royal Decree 1245/1995 (in the wording given by Royal Decree 256/2013). On 18 occasions, such abstentions occurred when debating proposals for financing or guaranteeing companies related to different directors. On five occasions, abstentions occurred with respect to the annual verification which under article 6.3 of the Rules & Regulations of the Board, was carried out by the appointments & remuneration committee at its meeting on 13th February 2013. Two cases were related to the proposed appointment of two independent directors to hold office in the Banco Santander Foundation and one entailed the appointment of a family member of an executive director to serve on the board of a subsidiary of the Group. Another such occasion involved the approval of a contribution to a foundation chaired by a director, and a further 3 cases involved the placing on record of appreciation for the work carried out by a director.

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

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

(q) Major Shareholders

At 31 December 2013, 1.666% 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 4 of Ley 24/1988, de 28 de julio, del Mercado de Valores (Law 24/1988 of 28 July of the Securities Market).

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.

(r) Issuer's financial statement

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

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

The Issuer has prepared and published consolidated financial statements for the three month period ended 31 March 2014.

As at the date of this Offering Circular, the Issuer has a total share capital which is fully-issued and paid up of €5,889,040,312, divided into 11,778,080,624 shares with a nominal value of €0.50. All shares are of the same class and issue with the same rights attached.

MARKET INFORMATION

The Common Shares of Banco Santander are currently listed on the Spanish Stock Exchanges (as defined in the Conditions) under the ticker symbol "***SAN***", and in Lisbon, London, Milan, Buenos Aires, Mexico and, through ADSs New York.

On 30 April 2014, the official price of our ordinary shares on the AQS (Automated Quotation System) was € 7,1670 per ordinary share.

The daily trading volume of the Common Shares of Banco Santander in 2013 was 85,325,984. The prices of the Common Shares of Banco Santander are published every dealing day.

The Spanish securities market for equity securities consists of the Spanish Stock Exchanges and the AQS. The AQS links the four Spanish Stock Exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The aggregate trading volume on the Spanish Stock Exchanges for the period from January 2013 through November 2013 amounted to 643,376 million of euros (source: *Informe de Mercado 2013; Bolsas y Mercados Españoles*). The Spanish securities markets are regulated by the CNMV.

AQS

The AQS was founded in 2 November 1995, substituting the computer assisted trading system known as *Sistema de Interconexion Bursatil*, which had been in place since 1989. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by *Sociedad de Bolsas, S.A.* ("*Sociedad de Bolsas*") a corporation owned by the company that manages the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of a Spanish Stock Exchange.

In a pre-opening session held from 8:30 to 9:00 (Madrid time) each trading day, an opening price is established for each security traded on the AQS based on a real-time auction in which orders can be entered, modified or canceled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed until auction ends if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or canceled. In exceptional circumstances (including the inclusion of new securities on the AQS) and after giving notice to the CNMV, Sociedad de Bolsas may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price or modify the reference price.

The computerized trading hours are from 9:00 to 17:30 (Madrid time). During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "*static*" range of the reference price (the price resulting from the closing auction of the immediately preceding trading day or the immediately preceding volatility auction in the current trading session), provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "*dynamic*" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and ask orders for a security within the computerized system which exceed any of the above "*static*" and/or "*dynamic*" ranges, trading on the security is automatically suspended and a new auction, or volatility auction, is held where a new reference price is set, and the "*static*" and "*dynamic*" ranges will apply over such new reference price. The "*static*" and "*dynamic*" ranges applicable to each particular security are set up and reviewed periodically by Sociedad de Bolsas. In a postclosing session auction held from 17:30 to 17:35 (Madrid time), orders can be entered, modified or cancelled, but are not executed until auction ends.

Between 17:30 and 20:00 (Madrid time), trades may occur outside the computerized matching system without prior authorization of Sociedad de Bolsas (provided such trades are communicated to Sociedad de Bolsas), at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and, if, among other things, the trade involves more than €300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to Sociedad de Bolsas before 20:00 (Madrid time). At any time trades may take place (with the prior authorization of Sociedad de Bolsas) at any price if:

- the trade involves more than €1.5 million and more than 40% of the average daily trading volume of the stock during the preceding three months;
- the transaction derives from a merger or spin-off, or from the reorganization of a group of companies;
- the transaction is executed for the purpose of settling litigation or completing a complex set of contracts; or
- Sociedad de Bolsas finds other appropriate cause.

Information with respect to the computerized trades between 9:00 and 17:30 (Madrid time) is made public immediately, and information with respect to trades outside the computerized matching system is reported to the Sociedad de Bolsas by the end of the trading day and published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the AQS are cleared and settled through Iberclear. Only participating entities of Iberclear are entitled to use it, and access to become a participating entity is restricted to authorized members of the Spanish Stock Exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Competitiveness, is reached with Iberclear) and, with the approval of the CNMV, other brokers who are not members of the Spanish Stock Exchanges, banks, savings banks and foreign settlement and clearing systems. Iberclear is owned by Spanish Exchanges and Markets, Holding Company of Markets and Financial Systems (*Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*), a holding company which holds a 100% interest in each of the Spanish official secondary markets and settlement systems. The clearance and settlement system and its participating entities are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book-entry form. Iberclear, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its participating entities on its own behalf as well as the number of shares held on behalf of third parties. Each participating entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name; or
- the investor appearing in the records of the participating entity as holding the shares.

Iberclear has introduced the "*T+3 Settlement System*" by which the settlement of any transactions must be made within three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish Stock Exchange requires the participation of a Spanish official stockbroker, broker-dealer or *other* entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner's request the relevant participating entity must issue a certificate of ownership. If the owner is a participating entity, Iberclear is in charge of the issuance of the certificate with respect to the shares held in the participating entity's name.

Notwithstanding the foregoing, it should be noted that Law 32/2011, of October 4, which amends Law 24/1988, of July 28, on the securities market (*Ley 32/2011, de 4 de octubre, por la que se modifica la Ley 24/1988, de 28 julio, del Mercado de Valores*), anticipates some changes yet to be implemented in the Spanish clearing, settlement and registry procedures of securities transactions that will substantially modify the abovementioned system and will allow the connection of the post trading Spanish systems to the European Platform Target 2 Securities, which is scheduled to be fully implemented in February 2017.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositories for Euroclear and Clearstream, Luxembourg and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, and the Management Regulations of Clearstream and the instructions to Participants of Clearstream as amended from time to time, as applicable. Persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited ("*investors*") shall have the right to receive the number of shares equal to the number of shares so credited, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees described below, if any, and obtaining the relevant recording in the book-entry registries kept by the members of Iberclear.

Under Spanish law, only the record holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear or its nominee or Clearstream or its nominee will be the sole record holder of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, until such time as investors exercise their rights to withdraw such shares and cause them to obtain the recording of the investor's ownership of the shares in the book-entry registries kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. Each of Euroclear and Clearstream will endeavor to inform investors of any significant events of which they have notice affecting the shares recorded in the name of Euroclear or its nominees and Clearstream or its nominees and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as it shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of proxies, powers of attorney or other similar certificates for delivery to us, or our agent or (ii) voting of such shares by Euroclear or its nominees and Clearstream or its nominees in accordance with the instructions of investors.

If the Bank offers or causes to be offered to Euroclear or its nominees and Clearstream or its nominees, as the record holders of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavor to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of its regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

DESCRIPTION OF THE SHARES

The following summary describes all material considerations concerning the share capital of the Issuer and briefly describes all material provisions of its by-laws and Spanish law.

Historical price of ordinary shares

The following table sets forth the price of the Issuer's ordinary shares for the years 2011 to 2013:

	Euros per Share			
	Average	Low	High	Last
2011 Annual…………………	7.25	5.13	9.32	5.87
2012 Annual…………………	5.53	4.04	6.59	6.10
2013 Annual…………………	5.81	4.84	6.77	6.51

Form and Transfer

The shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise the shareholders' rights, though joint holders are jointly and severally liable vis-à-vis the Issuer for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry of shares reflecting for each of its participating entities (*entidades participantes*), the number of shares held by such entities for their own account, as well as the amount of such shares held on behalf of their customers. Each participating entity in turn maintains a detailed register of the owners of such shares. The shares must be entered in the corresponding register in the name of the person or persons that own them. The shareholders and holders of the limited real rights or encumbrances on the shares may obtain legitimation certificates (*certificados de legitimación*) as provided for under the laws governing shares represented by book entries.

Transfers of shares quoted on a Spanish Stock Exchange must be made through or with the participation of a member of a Spanish Stock Exchange that is an authorized broker or dealer by recording these transfers in the book-entry registry maintained by Iberclear and its participating entities. The transfer of shares may be subject to certain fees and expenses.

Dividend and Liquidation Rights

Payment of dividends is proposed by the Board of Directors and must then be authorized by the Issuer's shareholders at a General Shareholders Meeting. The Board of Directors may resolve the payment of interim dividends subject to certain legal requirements. Shareholders participate in any such dividends for each year from the record date determined for such dividends by a General Shareholders Meeting or a Board of Directors Meeting, as the case may be. Where any of the above indicated dividends are structured as scrip dividends each shareholder may opt for one of the following alternatives: (i) to receive new Santander Common Shares; (ii) to receive a cash payment broadly equivalent to the dividend (to this end Banco Santander assumes an irrevocable undertaking to acquire the free allotment rights for a fixed price); or (iii) to receive a cash payment through selling rights on market. Spanish law requires each company to contribute at least 10 per cent. of its profits for the year to a legal reserve each year until the balance of such reserve is equivalent to at least 20 per cent. of such company's issued share capital. Company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. According to Spanish law, dividends may only be paid out from the portion of profits or distributable reserves that exceed the

Issuer's amortizable goodwill and its incorporation, research and development expenses, and only if the value of the Issuer's net worth is not, and as a result of distribution would not be, less than its share capital plus legal reserve. In accordance with article 947 of the Spanish Commercial Code, the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

With regard to the tax implications derived from dividends paid by the Issuer see "*Taxation — Taxation on Ownership and Transfer of Shares — Direct taxation — Taxation of dividends*."

Upon the Issuer's liquidation, its shareholders would be entitled to receive proportionately any assets remaining after the payment of the Issuer's debts and taxes and expenses of the liquidation.

The following tables set forth the dividends distributed by the Issuer for the years 2011, 2012 and 2013:

2011

Date:	3/5/2012	2/2/2012	3/11/2011	1/8/2011
Gross	0.2200	0.1190	0.1260	0.1352
Net	0.1738	0.0940	0.1021	0.1095
Currency	Euro	Euro	Euro	Euro
Class	Ordinary	Ordinary	Ordinary	Ordinary
Type	Scrip	Scrip	Scrip	Interim
Exercise	2011	2011	2011	2011
Profitability	12.35%	10.76%	10.01%	8.64%
Ex-dividend Date	13/04/2012	16/01/2012	17/10/2011	1/8/2010

2012

Date:	2/5/2013	1/2/2013	9/11/2012	21/08/2012
Gross	0.1500	0.1520	0.1500	0.1520
Net	0.1185	0.1201	0.1185	0.1201
Currency	Euro	Euro	Euro	Euro
Class	Ordinary	Ordinary	Ordinary	Ordinary
Type	Scrip	Scrip	Scrip	Scrip
Exercise	2012	2012	2012	2012
Profitability	11.51%	10.48%	10.46%	13.23%
Ex-dividend Date	12/4/2013	15/01/2013	17/10/2012	13/07/2012

2013

Date:	2/5/2014	3/2/2014	4/11/2013	1/8/2013
Gross	0.149	0.1520	0.1530	0.1500
Net	0.11771	0.1201	0.1209	0.1185
Currency	Euro	Euro	Euro	Euro
Class	Ordinary	Ordinary	Ordinary	Ordinary
Type	Scrip	Scrip	Scrip	Scrip
Exercise	2013	2013	2013	2013
Profitability	8.55%	8.86%	9.03%	12.24%
Ex-dividend Date	14/04/2014	15/01/2014	16/10/2013	15/07/2013

Upon a liquidation of the Bank, our shareholders would be entitled to receive pro-rata any assets remaining after the payment of our debts, taxes and expenses of the liquidation. Holders of non-voting shares, if any, are entitled to receive reimbursement of the amount paid before any amount is distributed to the holders of voting shares.

Attendance and Voting at Shareholders Meetings

Each Common Share of the Issuer (currently of €0.5 each) entitles the shareholder to attend the General Shareholders Meeting. Shares may be voted by written proxy, and proxies may be given to another person. Proxies must be in writing and are valid only for a single meeting, subject to limited exceptions under the Spanish Companies Act.

Attendance to the General Shareholders Meeting, and direct exercise of shareholders rights, is generally limited to holders of record with Iberclear or its participating entities as described above under "*Market Information – Clearance and Settlement System*".

Each share of our share capital entitles the shareholder to one vote.

Pursuant to the by-laws of the Issuer and the Spanish Companies Act, General Shareholders Meetings may be either ordinary or extraordinary. Ordinary General Shareholders Meetings must be convened within the first six months of each fiscal year on a date fixed by the Board of Directors. As a general rule, Extraordinary General Shareholders Meetings may be called from time to time by the Board of Directors of the Issuer at its discretion or at the request of shareholders representing at least 5 per cent. of the Issuer's share capital. Notices of all General Shareholders Meetings must be published in the Spanish Commercial Registry Official Gazette (*Boletín Oficial del Registro Mercantil*) and on the CNMV and the Issuer websites. The interval between the first and second calls for a General Shareholders Meeting must be at least 24 hours. The notice must include the date and place of the first call, the agenda of the meeting, the date on which shareholders need to be registered as such in order to attend and vote at the meeting, the place and form in which information related to the proposed resolutions can be obtained by the shareholders, the webpage where such information will be available, and clear instructions on how shareholders can attend and vote in the General Shareholders Meeting. It may also state the date in which, if applicable, the meeting is to be held on the second call.

Shareholders representing at least 5 per cent. of the share capital of the Issuer have the right to request the publication of an amended notice including one or more additional agenda items to the Ordinary General Shareholders Meeting and to add new resolution proposals to the agenda of any General Shareholders Meeting, within the first five days following the publication of the agenda.

At Ordinary General Shareholders Meetings, shareholders are asked to approve the financial statements for the previous fiscal year, the management and the application of the profit or loss attributable to the Issuer. All other matters that can be decided by a General Shareholders Meetings may be addressed at either Ordinary or Extraordinary General Shareholders Meetings. Shareholders can vote on these matters at an Ordinary General Shareholders Meeting if such items are included on the meeting's agenda. The by-laws of the Issuer provide that, in order to facilitate the shareholders' attendance to the meetings, shareholders shall be provided with registered admission cards (*tarjetas de admisión*). Admission cards can be obtained at any time up to five days before a given General Shareholders Meeting. Admission cards include the number of votes corresponding to their holders at the relevant General Shareholders Meeting.

The by-laws of the Issuer and the Spanish Companies Act provide that, on the first call of a General Shareholders Meeting, a duly constituted General Shareholders Meeting requires a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy. On the second call, there is no quorum requirement.

Resolutions relating to ordinary matters may be adopted upon the affirmative vote of a majority of votes cast at such meeting. However, the Spanish Companies Act and the by-laws of the Issuer provide that the consideration of extraordinary matters such as the issuance of bonds, changes in the share capital structure, cancellation or restriction of the preferential subscription rights to acquire new shares, mergers, spin-offs, changes in the corporate form, global assignment of assets and liabilities, dissolution, transfer of the registered office abroad and amendment of the by-laws in general require on first call a quorum of at least 50 per cent. of the issued voting share capital, present in person or by proxy, and on second call, the presence of shareholders representing at least 25 per cent. of the issued voting share capital, present in person or by proxy. If, after the second call, the shareholders present or represented constitute more than 25 per cent. of the issued voting share capital but less than 50 per cent., present in person or by proxy, resolutions relating to such extraordinary matters may be adopted only with the approval of two-thirds of the votes validly cast at such meeting. Resolutions relating to the increase in the maximum limits of bonus payments to executive directors and certain other employees of the Bank's Group may only be passed by the affirmative vote of (i) two thirds of the share capital if the quorum at the meeting is at least of 50% of the share capital or (ii) of 75% of the share capital if the quorum at the meeting is below 50% of the share capital.

A General Shareholders Meeting at which 100 per cent. of the share capital is present or represented is validly constituted even if no notice of such meeting was given, and, upon unanimous agreement, shareholders may consider any matter at such meeting. A resolution passed in a General Shareholders Meeting is binding on all shareholders. However, it may be contested if such resolution is: (i) contrary to Spanish laws or the company's by-laws; or (ii) prejudicial to the company's interests and beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, Directors and interested third parties. In the case of resolutions prejudicial to the company's interests or contrary to its by-laws, such right is extended to shareholders who attended the General Shareholders Meeting and recorded their opposition in the minutes of the meeting, to shareholders who were absent and to those unlawfully prevented from casting their vote, as well as to members of the Board of Directors. In certain circumstances (such as a substantial modification of corporate purpose or certain changes of the corporate form, transfer of registered office abroad, intra-European Union merger with transfer of registered office to another European Union country or incorporation of a limited liability European holding company if the dissenting shareholder is a partner of the promoter companies), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were to apply and be exercised, the company would be required to purchase or offset the relevant share ownership at prices determined in accordance with established formula or criteria relating to the average price of the shares in the Spanish Stock Exchanges within certain periods of time.

Under the Spanish Companies Act, shareholders who voluntarily aggregate their shares so that they are equal to or greater than the result of dividing the total share capital by the number of Directors have the right to appoint a corresponding proportion of the members of the Board of Directors, provided that the relevant vacancy or vacancies exist within the Board and the shareholders and directors satisfy certain other corporate and regulatory requirements (including those described under "*Legal Restrictions on Acquisitions of Shares in Spanish Banks*" below). Shareholders who exercise this right may not vote on the appointment of other Directors. The appointment of Directors is subject to the approval of the Bank of Spain.

Preferential Subscription Rights and Increase of Share Capital

Pursuant to Spanish law, shareholders have preferential subscription rights to subscribe for any new shares and for bonds convertible into shares. However, a resolution passed at a General Shareholders Meeting or a meeting of the Board of Directors or the Executive Committee acting by delegation may, in certain circumstances, waive such preferential subscription rights, provided that the relevant requirements of Spanish law (particularly Articles 308, 504 and 505 of the Spanish Companies Act) are met. In any event, preferential subscription rights will not be available in the event of an increase in the share capital of the Issuer for the conversion of convertible bonds into shares, a merger in which new shares are issued as consideration or in the case of a capital increase with non-monetary contributions.

In the case of a listed company, under Article 506 and 511 of the Spanish Companies Act, when the shareholders authorize the Board of Directors to issue new shares or bonds convertible into shares, they can also authorize the Board of Directors to not grant preferential subscription rights in connection with such new shares or bonds convertible into shares if it is in the best interest of the company. The Board of Directors may, in turn, delegate on the Executive Committee the use of this faculty.

Preferential subscription rights, when applying in connection with an approved issuance of new shares or convertible bonds will at the time be transferable, may be traded on the AQS of the Spanish Stock Exchanges and may be of value to existing shareholders because new shares and convertible bonds may be offered for subscription at prices lower than prevailing market prices.

The General Shareholders' Meeting held on 28 March 2014, resolved to delegate to the Issuer's Board of Directors the decision to increase its share capital by up to a maximum amount of €2,890,266,786.50 of the share capital within three years pursuant to the provisions of Articles 297.1.b), 311.1 and 506 of the Spanish Companies Act. At the same meeting it was further resolved to increase the share capital of the Bank in the amount of €500 million and to delegate to the Board the execution of such increase within one year as from the General Shareholders Meeting, pursuant to article 297.1a) of the Spanish Companies Act.

The share capital increase that the Conversion of the Preferred Securities would require is counted against the first of the delegations previously referred to. In addition, the General Shareholders' Meeting held on 28 March 2014 also resolved to delegate to the Issuer's Board of Directors the decision to issue, among other instruments, preferred shares that will eventually be convertible into common shares by up to a maximum of €10,000,000. The Preferred Securities are issued under that delegation of faculties and the subsequent delegation of faculties of the Board of Directors in favor of the Executive Committee.

Shareholder Suits

Shareholders in their capacity as shareholders may bring actions challenging resolutions adopted at General Shareholders Meeting. The court of first instance in the company's corporate domicile has exclusive jurisdiction over shareholder suits.

Under the Spanish Companies Act, Directors are liable to the company and the shareholders and creditors of the company for acts and omissions contrary to Spanish law or the company's by-laws and for failure to carry out the duties and obligations required of Directors. Directors have such liability even if the transaction in connection with which the acts or omissions occurred is approved or ratified by the shareholders.

The liability of the Directors is joint and several, except to the extent any Director can demonstrate that he or she did not participate in decision making relating to the transaction at issue, was unaware of its existence or being aware of it, did all that was possible to mitigate any damages or expressly disagreed with the decision-making relating to the transaction.

Legal Restrictions on Acquisitions of Shares in Spanish Banks

Certain provisions of Spanish law require notice to the Bank of Spain prior to the acquisition by any individual or corporation of a significant holding of shares of a Spanish bank.

Any natural or legal person or such persons acting in concert, who have taken a decision either to acquire, directly or indirectly, a significant holding (*participación significativa*) in a Spanish bank or to further increase, directly or indirectly, such a qualifying holding in a Spanish bank as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 30 per cent. or 50 per cent. or so that the bank would become its subsidiary, must first notify the Bank of Spain, indicating the size of the intended holding and other relevant information. A significant holding for these purposes is defined as a direct or indirect holding in a Spanish bank which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that bank. In accordance with article 18 of Royal Decree 1245/1995, of July 14 "*significant influence*" shall be deemed to exist when there is the capacity to appoint or dismiss a board member.

If the acquisition is carried out and the required notice is not given to the Bank of Spain or if the acquisition is carried out before the 60 business days' period following the giving of notice elapses, or if the acquisition is opposed by the Bank of Spain, then there shall be the following consequences: (A) the voting rights corresponding to the acquired shares may not be exercised or, if exercised, will be deemed null, (B) the Bank of Spain may seize control of the bank or replace its Board of Directors, and (C) a fine may be levied on the acquirer.

The Bank of Spain has 60 business days after the receipt of any such notice to object to a proposed transaction. Such objection may be based on finding the acquirer unsuitable on the basis of its commercial or professional reputation, its solvency or the transparency of its corporate structure, among other things. If no such objection is raised within the 60 business days' period, the authorization is deemed to have been granted.

Any natural or legal person, or such persons acting in concert, who has acquired, directly or indirectly, a holding in a Spanish bank so that the proportion of the voting rights or of the capital held reaches or exceeds 5 per cent., must immediately notify in writing the Bank of Spain and the relevant Spanish bank, indicating the size of the acquired holding.

Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a qualifying holding in a Spanish bank must first notify the Bank of Spain, indicating the size of his intended reduced holding. Such a person shall likewise notify the Bank of Spain if he has taken a decision to reduce his qualifying holding so that the proportion of the voting rights or of the capital held would fall below 20 per cent., 30 per cent. or 50 per cent. or so that the bank would cease to be its subsidiary. Failure to comply with these requirements may lead to sanctions being imposed on the defaulting party.

Spanish banks are required, on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below one of the thresholds referred to above, inform the Bank of Spain of those acquisitions or disposals.

Furthermore, Spanish banks are required to inform the Bank of Spain as soon as they become aware of, and in any case no later than 10 business days after it is noted in their shareholders' registry, each direct or indirect acquisition by a natural or legal person of at least 1% of the bank's total share capital. The Bank of Spain also requires each bank to provide it quarterly with a list of all its shareholders that are financial institutions and all other shareholders that own at least 0.25 per cent. of the bank's share capital by reference to the last day of each calendar quarter.

If the Bank of Spain determines at any time that the influence of a person who owns a qualifying holding of a bank may adversely affect that bank's management or financial situation, it may request that the Spanish Ministry of Economy and Competitiveness: (1) suspend the voting rights of such person's shares for a period not exceeding three years; (2) seize control of the bank or replace its Board of Directors; or (3) in exceptional circumstances revoke the bank's license. A fine may also be levied on the person owning the relevant significant shareholding.

The Issuer is the holding company of a financial conglomerate with regulated subsidiaries in several jurisdictions and therefore the acquisition of a significant stake, the appointment of Directors or the exercise of influence over the issue may be subject to other requirements in Spain and in other jurisdictions in which the Group operates.

Tender Offers

Law 6/2007, of April 12, which amends the Securities Market Law, has modified the rules for takeover bids. This Law, which came into effect on 13 August 2007, partially transposes into the Spanish legal system Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

The rules replaced the traditional system where launching a takeover bid was compulsory prior to acquiring a significant shareholding in the target company and partial bids were permitted for a regime where takeover bids must be made for all the share capital after obtaining the control of a listed company (i.e. 30% of the voting rights or appointment of more than one-half of the members of the company's board of directors) whether such control is obtained by means of an acquisition of securities or an agreement with other holders of securities.

The above does not prevent parties from making voluntary bids for a number that is less than the totality of securities in a listed company.

Law 6/2007 also regulates, among other things: (i) new obligations for the board of directors of the offeree company in terms of preventing the takeover bid (passivity rule); and (ii) the squeeze-out and sell-out rights when the offeror is a holder of securities representing at least 90% of the voting capital of the offeree company and the prior takeover bid has been accepted by holders of securities representing at least 90% of the voting rights covered by the bid.

Royal Decree 1066/2007 on rules applicable to takeover bids for securities further developed the regulations on takeover bids established by Law 6/2007, completing the amendments introduced by Law 6/2007, in order to ensure that takeover bids are carried out within a comprehensive legal framework and with absolute legal certainty. The Royal Decree contains provisions regarding: (i) the scope and application to all takeover bids, whether voluntary or mandatory, for a listed company; (ii) the rules applicable to mandatory takeover bids when control of a company is obtained; (iii) other cases of takeover bids, such as bids for de-listing of securities and bids that must be made when a company wishes to reduce capital through the acquisition of its own shares for subsequent redemption thereof; (iv) the consideration and guarantees offered in a bid; (v) stages of the procedure that must be followed in a takeover bid; (vi) the mandatory duty of passivity of the offeree company's board of directors and the optional regime of neutralization of other preventive measures against bids; (vii) changes to, withdrawal of, and cessation of effects of the bid; (viii) the acceptance period, the calculation of the acceptances received and the settlement of the bid; (ix) the procedures applicable to competing offers; (x) the rules for squeeze-outs and sell-outs; and (xi) certain rules on supervision, inspection and sanctions applicable with respect to the regulations on takeover bids.

See risk factor "*Holders may be obliged to make a takeover bid in case of the Trigger Event if they take delivery of Common Shares*".

Reporting Requirements

Acquisition of shares

Pursuant to Royal Decree 1362/2007, of October 19, any individual or legal entity who, by whatever means, purchases or transfers shares which grant voting rights in a company for which Spain is the Country of Origin (*Estado de origen*) (as defined therein) and which is listed on an official secondary market or other regulated market in the EU, must notify the relevant issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a 3% threshold of the company's total voting rights. The notification obligations are also triggered at thresholds of 5% and multiples thereof (excluding 55%, 65%, 85%, 95% and 100%).

The individual or legal entity required to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four business days from the date on which the transaction is acknowledged (the first day of the notitication period is the business day following the day on which the relevant acquisition or transfer is effective).

Should the individual or legal entity effecting the transaction be a non-resident of Spain, notice must also be given to the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (a department of the Ministry of Economy and Competitiveness). See "*Restrictions on Foreign Investments*" below.

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the company and the CNMV of the holding of a significant stake in accordance with the regulations.

Should the individual or the legal entity effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of July 5), the threshold that triggers the obligation to disclose the acquisition or disposition of shares is reduced to 1% (and successive multiples thereof).

All members of the Board of Directors must report to both the company and the CNMV the percentage and number of voting rights in the company held by them at the time of becoming or ceasing to be a member of the Board of Directors. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any compensation plans.

Members of the Senior Management must also report any share-based compensation that they may receive pursuant to any compensation plans or any subsequent amendment to such plans. Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, of November 11 (implementing European Directive 2004/72/EC) ("**Royal Decree 1333/2005**") developing the Spanish Securities Market Act, regarding market abuse, which defines senior management (*directivos*) as those "*high-level employees in positions of responsibility with regular access to insider information (información privilegiada) related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer*".

In addition, pursuant to Royal Decree 1333/2005, any member of the Board of Directors and the Senior Management, or any parties closely related to any of them, as such terms are defined therein, must report to the CNMV any transactions carried out with respect to the company's shares or derivatives or other financial instruments relating to the company's shares within five business days of such transaction. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

The Issuer is the holding company of a financial conglomerate with listed subsidiaries in several jurisdictions and therefore the acquisition of a significant stake, the appointment of Directors or the exercise of influence over the issue may be subject to other requirements in Spain and in other jurisdictions in which the Group operates.

Acquisition of own shares

The Issuer is required to report to the CNMV any acquisition of its own shares which, together with all other acquisitions since the last notification, reaches or exceeds 1% of its share capital (irrespective of whether any own shares have been sold in the same period). In such circumstances, the notification must include the number of shares acquired since the last notification (detailed by transaction), the number of shares sold (detailed by transaction) and the resulting net holding of treasury shares.

Shareholder agreements

The Spanish Securities Market Act and Articles 531, 533 and 535 of the Spanish Companies Act require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a General Shareholders Meetings or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares. If any shareholders enter into such agreements with respect to the Issuer's shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and the CNMV and file such agreements with the appropriate Commercial Registry. Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the Spanish Securities Market Act.

Such shareholders' agreement has no effect with respect to the regulation of the right to vote in General Shareholders Meetings and restrictions or conditions on the free transferability of shares and bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the company.

Share Repurchases

Pursuant to Spanish corporate law, the Issuer may only repurchase its own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorized by the General Shareholders Meeting by a resolution establishing the maximum number of shares to be acquired, the minimum and maximum acquisition price and the duration of the authorization, which may not exceed five years from the date of the resolution;
- the aggregate par value of the shares repurchased, together with the aggregate par value of the shares already held by the Issuer and its subsidiaries, must not exceed 10% of its share capital;
- the acquisition may not lead to net equity being lower than the share capital plus non-distributable reserves in accordance with Spanish corporate law and the by-laws of the Issuer; and
- the shares repurchased must be fully paid, and must be free of ancillary contributions (*prestaciones accesorias*).

Treasury shares do not have voting rights or economic rights (e.g., the right to receive dividends and other distributions and liquidation rights), except the right to receive bonus shares, which will accrue proportionately to all of the Issuer's shareholders. Treasury shares are counted for purposes of establishing the quorum for General Shareholders Meetings and majority voting requirements to pass resolutions at General Shareholders Meetings.

Directive 2003/6/EC of the European Parliament and the Council, dated 28 January 2003, on insider dealing and market manipulation establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. Article 8 of this Directive 2003/6/EC establishes an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU Member State. European Commission Regulation No. 2273/2003, dated 22 December 2003, implemented the aforementioned directive with regard to exemptions for buy-back programs. Article 3 of this Regulation 2273/2003 states that in order to benefit from the exemption provided for in Article 8 of the Directive 2003/6/EC, a buy-back program must comply with certain requirements established under such regulation and the sole purpose of the buy-back program must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either of the following:

- debt financial instruments exchangeable into equity instruments; or
- employee share option programs or other allocations of shares to employees of the issuer or an associated company.

In addition, on 19 December 2007, the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbor for the purposes of market abuse regulations.

Provision of Information to Shareholders

Under Spanish law, shareholders are entitled to receive certain information, including information relating to any amendment of the by-laws, an increase or reduction in the share capital, the approval of the financial statements and other major corporate events or actions.

Foreign Investment and Exchange Control Regulations

Restrictions on Foreign Investment

Spain has traditionally regulated foreign currency movements and foreign investments. However, since the end of 1991, Spain has moved into conformity with European Union standards regarding the movement of capital and services. On 23 April 1999, a new regulation on foreign investments (Royal Decree 664/1999) was approved in conjunction with the Spanish Foreign Investment Law 18/1992, to bring the existing legal framework in line with the provisions of the Treaty of the European Union. As a result, exchange controls and foreign investments have been, with certain exceptions, completely liberalized.

Subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies and transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls), and need only file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments within the Ministry of Economy and Competitiveness following the investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, as it is the case of the Issuer, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares in book-entry form have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market, as well as investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50% of the capital of the Spanish company in which the investment is made.

The Spanish Council of Ministers, acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorization from the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of 4 July 2003, which has as its purpose the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering ("**Law 19/2003**"), generally provides for the liberalization of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents of Spain in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of the Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Finally, in addition to the notices relating to significant shareholdings that must be sent to the relevant company, the CNMV and the relevant Spanish Stock Exchanges, as described in this section under "*Reporting Requirements*", foreign investors are required to provide such notices to the Registry of Foreign Investments.

Exchange control regulations

Pursuant to Royal Decree 1816/1991 of 20 December 1991, relating to economic transactions with non-residents, and Directive 88/361/EC, receipts, payments or transfers between non-residents and residents of Spain must be made through registered entities such as banks and other financial institutions properly registered with the Bank of Spain and/or the CNMV, through bank accounts opened with foreign banks or foreign branches of registered entities or in cash or by a cheque payable to bearer

TAXATION

The following summary is a general description of certain Spanish tax considerations relating to the acquisition, ownership and disposal of the Preferred Securities and Common Shares, as well as the conversion of the Preferred Securities into Common Shares. It does not purport to be a complete analysis of all tax consequences relating to the Preferred Securities and Common Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which might be subject to special rules. This analysis is a general description of the tax treatment under the currently in force Spanish legislation, without prejudice of regional tax regimes in the Historical Territories of the Basque Country and the Community of Navarre, or provisions passed by Autonomous Communities which may apply to investors for certain taxes. This summary is based on the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date. References in this section to Holders include the beneficial owners of the Preferred Securities and Common Shares, where applicable.

Prospective investors should consult their own tax advisers who can provide them with personalised advice based on their particular circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

In addition, investors should note that the appointment by an investor in Preferred Securities, or any person through which an investor holds Preferred Securities, of a custodian, collection agent or similar person in relation to such Preferred Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisors in relation to the tax consequences for them of any such appointment.

1 Tax treatment of the Preferred Securities

*The Issuer considers that the Preferred Securities qualify as financial assets with explicit yield, as such yield exceeds the reference rates fixed in Section 91 of Royal Decree 439/2007, of 30 March, approving the Personal Income Tax (“**PIT**”) Regulations, and in Section 61 of Royal Decree 1777/2004, of 30 July, approving the Corporate Income Tax (“**CIT**”) Regulations.*

Indirect taxation

The acquisition and any subsequent disposal of the Preferred Securities is exempt from Transfer Tax, Stamp Duties and Value Added Tax as provided for in Article 108 of the Stock Market Law and related provisions.

Direct taxation

1.1 Individuals with tax residency in Spain

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

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income pursuant to the abovementioned law, and taxed according to the then-applicable tax rate. Exceptionally during the tax period 2014, each investor’s savings income tax base will be taxed at 21 per cent. for taxable income up to EUR 6,000; 25 per cent. for taxable income between EUR 6,001 and EUR 24,000 and 27 per cent. for taxable income in excess of EUR 24,000. According to the Spanish tax legislation currently in force, as from 1 January 2015, any amount included in the savings part of the PIT taxable income up to EUR 6,000 will be taxed at a rate of 19 per cent. and the excess over such amount will be subject to a rate of 21 per cent.

Income from the transfer of the Preferred Securities shall be computed as the difference between the amounts obtained in the transfer, redemption or reimbursement of the Preferred Securities and their acquisition or subscription value. Costs and expenses effectively borne on the acquisition and/or disposal of the Preferred Securities shall be taken into account, insofar as adequately evidenced, in calculating the income.

Negative income derived from the transfer of the Preferred Securities, in the event that the Holder had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, shall be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

According to Section 44.5 of Royal Decree 1065/2007, the Issuer will make interest payments to individual Holders who are resident for tax purposes in Spain without withholding in the terms described under "*Reporting obligations*" below, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

Notwithstanding the above, in the case of Preferred Securities held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 21 per cent. which will be made by the depositary or custodian (19 per cent. as from 1 January 2015).

In any event, the individual Holder may credit the withholding against his or her final PIT liability for the relevant year and may be refundable pursuant to Section 103 of the PIT Law.

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

According to Wealth Tax regulations as amended by Royal Decree-Law 13/2011 (subject to any exceptions provided under relevant legislation in an Autonomous Region (*Comunidad Autónoma*)), the net worth of any individuals with tax residency in Spain up to the amount of EUR 700,000 is exempt from Wealth Tax. Therefore, Holders should take into account the value of the Preferred Securities which they hold as at 31 December each year. The applicable marginal rates range between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules, being the taxpayer the transferee. The effective tax rates range between 7.65 per cent. and 81.6 per cent., depending on relevant factors, although the final tax rate may vary depending on any applicable regional tax laws.

1.2 Legal entities with tax residency in Spain

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

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities must be included in the taxable income of legal entities with tax residency in Spain and will be subject to CIT (at the current general rate of 30 per cent.) in accordance with the rules for this tax.

In accordance with Section 44.5 of Royal Decree 1065/2007, there is no obligation to withhold on income payable to Spanish CIT taxpayers. Consequently, the Issuer will not withhold on interest payments under the Preferred Securities to Spanish CIT taxpayers in the terms described under "*Reporting obligations*" below , notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, in the case of Preferred Securities held by a Spanish resident entity and deposited with a Spanish based entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 21 per cent. (19 per cent. as from 1 January 2015) if the Preferred Securities do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and therefore, the exemption of withholding as regards income obtained by Spanish resident corporate investors from financial assets listed on an official OECD market, contained in Section 59(s) of the CIT regulation, is not applicable. In such a case, the required withholding will be made by the depositary or custodian.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

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

Spanish resident legal entities are not subject to Wealth Tax.

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

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

1.3 Individuals and legal entities with no tax residency in Spain

(a) *Non-Residents Income Tax (Impuesto sobre la Renta de No Residentes)*

(i) Non-Spanish tax resident investors acting through a permanent establishment in Spain

Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are the same as those for Spanish CIT taxpayers.

(ii) Non-Spanish tax resident investors not operating through a permanent establishment in Spain

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax (“**NRIT**”) taxpayers with no permanent establishment in Spain are exempt from NRIT, and also from withholding tax on account of NRIT provided that certain formalities as described in section "*Reporting obligations*" below are complied with.

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

To the extent that the income deriving from the Preferred Securities is exempt from NRIT, individuals who do not have tax residency in Spain who hold such Preferred Securities on the last day of any year will be exempt from Wealth Tax. Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish tax resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed EUR 700,000 would be subject to Wealth Tax. The applicable rates range between 0.2 per cent. and 2.5 per cent. Although some reductions may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as at 31 December each year.

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

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

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the provisions of the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with Spanish legislation, to the extent that rights deriving from the Preferred Securities can be exercised within Spanish territory.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

1.4 Reporting obligations

As described above, income paid with respect to the Preferred Securities will be exempt from Spanish withholding tax provided that the procedures for delivering to the Issuer a Payment Statement (as defined below) with the information described in Exhibit I (see below) are complied with in a timely manner. For these purposes, ‘‘income’’ means interest paid on a date when interest on the Preferred Securities is payable or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Preferred Shares (or a portion thereof) and the aggregate principal amount of such Preferred Shares.

The Second Additional Provision of Law 13/1985 establishes certain reporting obligations in relation to the Preferred Securities that must be met each time there is an interest payment on the Preferred Securities.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 ("**Section 44**").

In accordance with Section 44 paragraph 5, before the close of business on the Business Day (as defined in the Terms and Conditions of the Preferred Securities) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Preferred Securities (each, a "**Payment Date**") is due, the Issuer must receive from the Principal Paying Agent the following information about the Preferred Securities:

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

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

(c) the total amount of the relevant payment;

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

In particular, the Principal Paying Agent must certify the information above about the Preferred Securities by means of a certificate (the "**Payment Statement**"), the form of which is attached as Exhibit I.

In light of the above, the Issuer and the Principal Paying Agent will enter into a Paying Agency Agreement which, among other things, will provide for the timely provision by the Principal Paying Agent of a duly executed and completed Payment Statement in connection with each income payment under the Preferred Securities and set forth certain procedures agreed by the Bank and the Principal Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Principal Paying Agent.

Prospective Holders of Preferred Securities should note that none of the Issuer or the Joint Bookrunners accepts any responsibility relating to the procedures established for the collection of information concerning the Preferred Securities. Accordingly, none the Issuer or the Joint Bookrunners 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 relating to Withholding (Spanish tax rules)—*".

If the Principal Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Bank in a timely manner in respect of a payment of income under the Preferred Shares, such payment will be made net of Spanish withholding tax, currently at the rate of 21 per cent. If this were to occur, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Principal Paying Agent submits a duly executed and completed Payment Statement to the Bank no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "—Direct refund from Spanish tax authorities procedures".

1.5 Conversion of the Preferred Securities into Common Shares

(a) Individuals with tax residency in Spain

Income obtained on the conversion of the Preferred Securities into Common Shares, computed as the difference between the market value of the Common Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange, will be considered as a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law.

The tax treatment will be the one referred to in section 1.1(a) above.

Any income obtained in the conversion will not be subject to withholding tax.

(b) Legal entities with tax residency in Spain

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities into Common Shares will be computed as the difference between the market value of the Common Shares received and the book value of the Preferred Securities delivered in exchange. Such income will be subject to CIT at the current general rate of 30 per cent. in accordance with the rules for this tax.

The tax treatment will be the one referred to in section 1.2(a) above.

Any income obtained in the conversion will not be subject to withholding tax.

(c) Individuals and legal entities with no tax residency in Spain

(i) Non-Spanish tax resident investors operating through a permanent establishment in Spain

Non-Spanish tax resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

(ii) Non-Spanish tax resident investors not operating through a permanent establishment in Spain

Income obtained by non-Spanish tax resident investors on the conversion of the Preferred Securities into Common Shares will be exempt from such NRIT and from withholding tax on account of NRIT.

The tax treatment applicable to the income obtained will be the one described in section 1.3(a)(ii) above.

2 Taxation on Ownership and Transfer of Common Shares

Indirect taxation

The subscription, acquisition and any subsequent transfer of the Shares will be exempt from Transfer Tax, Stamp Duty and Value Added Tax, under the terms and with the exemptions set out in Section 108 of the Spanish Securities Market Law. Additionally, no Stamp Duty will be levied on such subscription, acquisition and transfer.

Direct taxation

2.1 Individuals with tax residency in Spain

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

(i) Taxation of dividends

According to the Spanish PIT Law the following, amongst others, shall be treated as gross capital income: income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his capacity as shareholder.

Gross capital income shall be reduced by any administration and custody expenses (but not by those incurred in individualised portfolio management) and the net amount shall be included in the relevant Spanish Holder savings taxable base. Exceptionally during the tax period 2014, each investor's savings income tax base will be taxed at 21 per cent. for taxable income up to EUR 6,000; 25 per cent. for taxable income between EUR 6,001 and EUR 24,000 and 27 per cent. for taxable income in excess of EUR 24,000. According to the Spanish tax legislation currently in force, as from 1 January 2015, any amount included in the savings part of the PIT taxable income up to EUR 6,000 will be taxed at a rate of 19 per cent. and the excess over such amount will be subject to a rate of 21 per cent.

However, according to the PIT Law, dividends, shares in profits of any type of entity, considerations paid for attendance at shareholders' meetings and any other income arising from other assets (except for the delivery of bonus shares which entitle the shareholder to share in the profits according to the by-laws or a decision of the Issuer) will be exempt from PIT up to an aggregate amount of EUR 1,500. This limit will be applicable to all dividends and profit participations obtained by the taxpayer in its capacity as a shareholder during a calendar year.

Such exemption will not be applicable to dividends and distributed profits arising from securities acquired by the shareholder during the two months prior to the dividend distribution date if, after that date, within the same term, the shareholder sells securities of the same type.

The payment to Spanish Holders of dividends or any other distribution will be generally subject to a withholding tax at the then-applicable rate (currently 21 per cent. and 19 per cent. as from 1 January 2015 onwards) without taking into consideration the EUR 1,500 exemption described above. Such withholding tax may be credited against the net PIT payable (*cuota líquida*) of the relevant Holder, and if the amount of tax withheld is greater than the amount of the net PIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with the PIT Law.

(ii) *Taxation of capital gains*

Gains or losses recorded by a Spanish Holder as a result of the transfer of listed shares which represent a participation in a company's equity, will qualify for the purposes of the PIT Law as capital gains or losses and will be subject to taxation according to the rules applicable to such capital gains or losses. The amount of capital gains or losses is calculated as the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the higher of the listed value of the share as of the transfer date and the agreed transfer price, less any fees or taxes incurred.

Long-term capital gains arising from the transfer of shares by the Spanish Holders, which comprise those capital gains and losses arising from the transfer of assets which are held for a period exceeding one year, shall be included in such Spanish Holder's savings taxable base corresponding to the period in which the transfer takes place. Exceptionally during the tax period 2014, each investor's savings income tax base will be taxed at 21 per cent. for taxable income up to EUR 6,000; 25 per cent. for taxable income between EUR 6,001 and EUR 24,000 and 27 per cent. for taxable income in excess of EUR 24,000. According to the Spanish tax legislation currently in force, as from 1 January 2015, any amount included in the savings part of the PIT taxable income up to EUR 6,000 will be taxed at a rate of 19 per cent. and the excess over such amount will be subject to a rate of 21 per cent.

Short-term capital gains, which comprise capital gains and losses arising from the transfer of assets acquired within the one-year period prior to the transfer date, will be included in the Spanish Holder's general taxable base subject to PIT. The general part of the taxable base is subject to progressive rates, which currently range between 24.75 per cent. and 56 per cent., although such progressive rates vary depending on the Autonomous Region where the Spanish Holder resides.

Capital gains arising from the transfer of shares are not subject to withholding tax on account of PIT.

Losses arising from the transfer of shares admitted to trading on certain official stock exchanges will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses will be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

(b) Wealth Tax (Impuesto sobre el Patrimonio)

Individual Spanish Holders are subject to the Spanish Wealth Tax on all their assets (including the Common Shares) as of 31 December of each year.

Spanish Wealth Tax Law provides that the first EUR 700,000 of net wealth owned by an individual Spanish Holder will be exempt from taxation, while the rest of the net wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. However, this may vary by Spanish Autonomous Region. As such, prospective Holders should consult their tax advisors.

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

Individuals resident in Spain for tax purposes who acquire Common Shares by inheritance or gift will be subject to the Spanish Inheritance and Gift Tax (in accordance with the Inheritance and Gift Tax Law), without prejudice to the specific legislation applicable in each Autonomous Region. The taxpayer is the transferee. The effective tax rate, after applying all relevant factors, ranges from 7.65 per cent. to 81.6 per cent. although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

2.2 Legal entities with tax residency in Spain

(a) Corporate Income Tax (Impuesto sobre Sociedades)

(i) Taxation of dividends

According to Section 10 of the CIT Law, dividends from the Issuer or a share of the Issuer's profits received by corporate Spanish Holders less any expenses inherent to holding the Common Shares, shall be included in the CIT taxable base. The general CIT tax rate is currently 30 per cent.

Furthermore, taxpayers will be entitled to a tax credit for double taxation of dividends equal to 50 per cent. of the gross tax due in respect of the taxable income attributable to such dividends, subject to the exceptions set out in Section 30.4 of the CIT Law.

Notwithstanding the above, the tax credit for double taxation of dividends will be equal to 100 per cent. of the gross tax due in respect of the taxable income attributable to such dividends if the shareholding (direct or indirect) held in the Issuer is at least 5 per cent. (which, under certain circumstances may be reduced to 3 per cent.) and such shareholding has been held continuously for one full year up to the date on which the dividend is paid or straddling such date.

Should such tax credits exceed the amount of gross CIT payable, the excess may be carried forward and deducted from the CIT tax liability arising in tax periods ending within the following seven years.

CIT taxpayers are subject to withholding at a rate of 21 per cent. on the full amount of the distributed profits (19 per cent. as from 1 January 2015), unless the taxpayer is entitled to a 100 per cent. tax credit for double taxation of dividends, provided also that the one year holding period has been complied with. Such withholding tax will be deductible from the net CIT payable, and if the amount of tax withheld is greater than the amount of the net CIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with the CIT Law.

(ii) *Taxation of capital gains*

The gain or loss arising on transfer of the Common Shares or from any other change in net worth relating to the Common Shares will be included in the tax base of CIT taxpayers, in the manner contemplated in Section 10 et seq. of the CIT Law, being taxed generally at a rate of 30 per cent.

Income deriving from share transfers is not subject to withholding on account of CIT.

Also, on the terms contemplated in Section 30.5 of the CIT Law, the transfer of shares by CIT taxpayers may entitle the transferor to a double taxation credit; further, it may qualify in respect of the portion of income that has not benefited from such a credit for the tax credit for reinvestment of extraordinary profits, in accordance with the provisions of Section 42 of the CIT Law.

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

Spanish resident legal entities are not subject to Wealth Tax.

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

In the event of acquisition of the shares free of charge by a CIT taxpayer, the income generated for the latter will likewise be taxed according to the CIT rules, the Inheritance and Gift Tax not being applicable.

2.3 Individuals and legal entities with no tax residency in Spain

(a) *Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)*

(i) Non-Spanish tax resident investors operating through a permanent establishment in Spain to which the Common Shares are attributable

Taxation of dividends

Ownership of the Common Shares by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Common Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Common Shares are the same as those for legal entities with tax residency in Spain described in section 2.2(a)(i) above.

Taxation of capital gains

If the Common Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to capital gains derived from such Common Shares are the same as those for legal entities with tax residency in Spain described section 2.2(a)(ii) above.

(ii) Non-Spanish tax resident investors not operating through a permanent establishment in Spain to which the Common Shares are attributable

Taxation of dividends

Under Spanish law, dividends paid by a Spanish resident company to a non-Spanish Holder are subject to Spanish NRIT, approved by the NRIT Law, withheld at the source on the gross amount of dividends, currently at a tax rate of 21 per cent. (19 per cent. as from 1 January 2015).

Notwithstanding the above, the NRIT Law includes an exemption in respect of the first EUR 1,500 of any Spanish source dividends received annually by individuals (without a permanent establishment in Spain and not acting through a tax haven) who are resident in an EU member state or in a territory or country that has an effective exchange of fiscal information agreement with Spain. However, Spanish withholding tax will nevertheless be required to be deducted from the gross amount of the dividends paid. Holders will have to seek a refund of such withholding taxes from the Spanish tax authorities by following the Spanish refund procedure (as described below under *–"Spanish Refund Procedure"*).

In addition, Holders resident in certain countries will be entitled to the benefits of a double taxation treaty ratified between Spain and their country of tax residence ("**DTC**"). Such Holders may benefit from a reduced tax rate or an exemption under an applicable treaty with Spain, subject to the satisfaction of any conditions specified in the DTC, including providing evidence of the tax residence of the non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the non-Spanish Holder or, as the case may be, the equivalent document specified in the Spanish Order which further develops the applicable treaty.

According to the Order of the Ministry of Economy and Finance of 13 April 2000, upon distribution of a dividend, the Issuer or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (*e.g.*, applying the general withholding tax rate of 21 per cent.), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish Holder has entered into a contract of deposit or management with respect to shares in the Issuer held by such Holders. If the depositary of the non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence of the non-Spanish Holder's right to obtain the treaty-reduced rate or the exemption, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish Holder. For these purposes, evidence for the special tax treatment is obtained by delivering a valid certificate of tax residence issued by the relevant tax authorities of the non-Spanish Holder's country of residence stating that, for the records of such authorities, the non-Spanish Holder is a resident of such country within the meaning of the relevant DTC, or as the case may be, the equivalent document regulated in the Order which further develops the applicable DTC. The relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the non-Spanish Holder is not resident, domiciled or represented in Spain, the non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated 30 July 2004, and an Order dated 17 December 2010, as amended.

Notwithstanding the above, the procedure established in the Order dated 13 April 2000 (described above) will not be applicable in respect to the first EUR 1,500 dividends exempt from taxation in the terms indicated above. In such event, dividends will be paid net of the general withholding tax rate and the non-Spanish Holder may obtain the refund of the amount withheld from the Spanish tax authorities following the Spanish refund procedure (as described below).

Taxation of capital gains

Capital gains derived from the transfer or sale of the Common Shares will be deemed Spanish source income and, therefore, are taxable in Spain at a general tax rate of 21 per cent. (19 per cent. as from 1 January 2015).

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains.

However, capital gains derived from shares in the Issuer will be exempt from taxation in Spain in either of the following cases:

(i) Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any non-Spanish tax resident Holder who is tax resident of a country that has entered into a DTC with Spain containing an "*exchange of information*" clause. This exemption is not applicable to capital gains obtained by a non-Spanish Holder through a country or territory that is defined as a tax haven by Spanish regulations.

(ii) Capital gains obtained directly by any non-Spanish tax resident Holder resident of another EU Member State or indirectly through a permanent establishment of such non-Spanish Holder in a EU Member State other than Spain, provided that:

- the Issuer's assets do not mainly consist of, directly or indirectly, Spanish real estate;
- during the preceding twelve months the non-Spanish tax resident Holder has not held a direct or indirect interest of at least 25 per cent. in the Issuer's capital or net equity; and

- the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

(iii) Capital gains realised by non-Spanish tax resident Holders who benefit from a DTC that provides for taxation only in such non-Spanish Holder's country of residence.

Non-Spanish tax resident Holders must submit a Spanish Tax Form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to settle the corresponding tax obligations or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish tax resident Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish tax resident Holder is resident of such country within the meaning of the relevant DTC) or equivalent document meeting the requirements of the Order which further develops the applicable DTC, together with the Spanish Tax Form. The non-Spanish tax resident Holder's tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

(b) Wealth Tax (Impuesto sobre el Patrimonio)

Non-Spanish tax resident individuals are subject to the Spanish Wealth Tax on the assets located in Spain (including the Common Shares) as of 31 December each year, unless an applicable DTC provides otherwise.

Spanish Wealth Tax Law provides that the first EUR 700,000 of assets owned in Spain by Spanish non-resident tax individuals will be exempt from taxation, while the rest of the wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

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

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

Non-Spanish tax resident individuals who acquire ownership or other rights over the Common Shares by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the provisions of the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with Spanish legislation.

Non-Spanish resident legal entities which acquire ownership or other rights over the Common Shares by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT Tax.

If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

3 Direct refund from Spanish tax authorities procedures

Beneficial owners entitled to receive income payments in respect of the Preferred Securities or in respect of the Common Shares free of Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable DTC but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim the amount withheld in excess from the Spanish Treasury following the 1st of February of the calendar year following the year in which the relevant payment date takes place and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

Set out below is Exhibit I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Exhibit I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of this Offering Circular is English. The Spanish language text of Exhibit 1 has been included in order that the correct technical meaning may be ascribed to the English text under applicable Spanish law.

EXHIBIT 1

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal (…)(1), en nombre y representación de (entidad declarante), con número de identificación fiscal (….)(1) y domicilio en (…) en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number (...)(1), in the name and on behalf of (entity), with tax identification number (....)(1) and address in (...) as (function - mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores.

1.1 Identification of the securities.

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados).

1.2 Income payment date (or refund if the securities are issued at discount or are segregated).

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated).

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora.

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2. En relación con el apartado 5 del artículo 44.

2. In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores.

2.1 Identification of the securities.

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados).

2.2 Income payment date (or refund if the securities are issued at discount or are segregated).

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados).

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated).

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en ....….a …. de ....…de ….

I declare the above in .... on the.... of .... of ....

(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia

(1) In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

4 EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

The Council Directive 2003/48/EC has been amended by the Amending Directive (Council Directive 2014/48/EU). The Amending Directive broadens the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

5 Proposed Financial Transaction Tax

On 14 February 2013, the EU Commission adopted a proposal for a Council Directive on a common financial transaction tax. According to the Draft Directive, the FTT shall be implemented and enter into effect in eleven Participating Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia and Slovenia) on 1 January 2014.

Pursuant to the Draft Directive, the FTT shall be payable on financial transactions provided at least one party to the financial transaction is established or deemed established in a Participating Member State and there is a financial institution established or deemed established in a Participating Member State which is a party to the financial transaction, or is acting in the name of a party to the transaction. The FTT shall, however, not apply to (inter alia) primary market transactions referred to in Article 5 (c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue.

The rates of the FTT shall be fixed by each Participating Member State but for transactions involving financial instruments other than derivatives shall amount to at least 0.1 per cent. of the taxable amount. The taxable amount for such transactions shall in general be determined by reference to the consideration paid or owed in return for the transfer. The FTT shall be payable by each financial institution established or deemed established in a Participating Member State which is a party to the financial transaction, acting in the name of a party to the transaction or where the transaction has been carried out on its account. Where the FTT due has not been paid within the applicable time limits, each party to a financial transaction, including persons other than financial institutions, shall become jointly and severally liable for the payment of the FTT due.

Prospective holders should therefore note, in particular, that any sale, purchase or exchange of the Preferred Securities, or of the Common Shares deliverable upon conversion of the Preferred Securities, will be subject to the FTT at a minimum rate of 0.1 per cent. provided the abovementioned prerequisites are met. The holder may be liable to itself pay this charge or reimburse a financial institution for the charge, and/or the charge may affect the value of the Preferred Securities or the Common Shares, as the case may be.

The Draft Directive is still subject to negotiation between the Participating Member States and therefore may be changed at any time. Moreover, once the Draft Directive has been adopted (the "**Directive**"), it will need to be implemented into the respective domestic laws of the Participating Member States and the domestic provisions implementing the Directive might deviate from the Directive itself. Prospective holders of the Preferred Securities should consult their own tax advisers in relation to the consequences of the FTT associated with subscribing for, acquiring, holding and disposing of the Preferred Securities and the Common Shares deliverable upon conversion of the Preferred Securities.

6 Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "*United States account*" of the Issuer (a "**Recalcitrant Holder**"). The Issuer will be classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "*Model* 1" and "*Model 2*" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Spain have entered into an IGA (the "**U.S. - Spanish IGA**") based on the Model 1 IGA.

The Issuer expects to be treated as a Reporting FI pursuant to the U.S. - Spanish IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it will in the future not be required to deduct FATCA Withholding from payments it makes. According, the Issuer and financial institutions through which payments on the Preferred Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Preferred Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Preferred Securities are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Preferred Securities by the Issuer, any paying agent and the clearing systems, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Preferred Securities. The documentation expressly contemplates the possibility that the Preferred Securities may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Preferred Securities will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Preferred Securities.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION, SALE AND TRANSFER

The Joint Lead Managers have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 9 May 2014, jointly and severally agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities, less the agreed commissions. The Bank will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Preferred Securities.

For the purposes of the selling restriction included in this section "Subscription, Sale and Transfer", "*Spanish Resident*" means a tax resident of Spain for the purposes of the Spanish tax legislation and any tax treaty signed by Spain for the avoidance of double taxation, including (i) any corporation, or other entity taxable as a corporation, incorporated under Spanish law, whose registered office is located in Spain or whose effective management is performed in Spain, and (ii) any non-residential entity for tax purposes in Spain acting in respect of the Preferred Securities through a permanent establishment in Spain, and (iii) any individual who is physically present in the Spanish territory for more than 183 days in the calendar year or whose main center or base of activities or economic interests is in Spain.

United States

The Preferred Securities and the Common Shares to be issued and delivered in the event of the Trigger have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Capitalised terms used in this paragraph have the meanings given to them under Regulation S.

The Preferred Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the Joint Lead Managers, within the United States or to, or for the account or benefit of, U.S. persons and that it will send to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor United States Treasury regulation section, including without limitation, successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the **C Rules**), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each of the Joint Lead Managers will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each of the Joint Lead Managers will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if any of the Joint Lead Managers or such purchaser is within the United States or its possessions or otherwise involve any of the Joint Lead Managers' U.S. office in the offer or sale of Preferred Securities. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the C Rules.

Spain

Each Joint Lead Manager has represented and agreed that the Preferred Securities must not be offered, distributed or sold in Spain nor to Spanish Residents. No publicity of any kind shall be made in Spain.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which Section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

Japan

The Preferred Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Joint Lead Manager represents and agrees that it will not offer or sell any Preferred Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Italy

The offering of the Preferred Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Preferred Securities may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Preferred Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Preferred Securities or distribution of copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Switzerland

Neither this Offering Circular nor any other document relating to the sale of the Preferred Securities constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Preferred Securities may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither the Offering Circular nor any other document relating to the Preferred Securities may be publicly distributed or otherwise made publicly available in or from Switzerland. The Offering Circular is not intended as an offer or solicitation with respect to the purchase or sale of the Preferred Securities by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Preferred Securities.

General

No action has been taken by the Bank or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Preferred Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Preferred Securities or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Preferred Securities by it will be made on the same terms.

GENERAL INFORMATION

1 Listing

Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. It is expected that listing of the Preferred Securities will take place and that dealings in the Preferred Securities on the Global Exchange Market will commence on or about 19 May 2014. The Issuer estimates that the expenses related to the admission of Preferred Securities to trading on the Global Exchange Market are expected to be EUR 4,940. The Bank may, at any time, apply for the listing of the Preferred Securities in any other market.

2 Authorisation

The creation and issue of the Preferred Securities have been authorised by a resolution of the Executive Committee of the Issuer dated 7 May 2014, acting by delegation of the shareholders' meeting dated 28 March 2014 and of the Board of Directors' resolution adopted on 28 March 2014.

3 Legal and Arbitration Proceedings

Save as disclosed in the documents incorporated by reference to this Offering Circular, there are no, nor have there been any, governmental, legal or arbitration proceedings (and no such proceedings are pending or threatened of which the Issuer is aware) which are likely to have or have had during the twelve months prior to the date of this Offering Circular, individually or in aggregate, a material adverse effect on the financial position or profitability of the Issuer or its subsidiaries taken as a whole.

4 Significant/Material Change

Since 31 December 2013, there has been no material adverse change in the prospects of the Issuer. Since 31 March 2014 there has been no significant change in the financial or trading position of the Issuer and its subsidiaries taken as a whole.

5 Auditors

The consolidated annual accounts of the Issuer for the three years ended 31 December 2013, 2012 and 2011 have been audited by Deloitte, S.L. (registered in the Spanish Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S-0692), Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid, Spain.

6 Documents on Display

Copies of the following documents in physical form may be inspected during normal business hours at the offices of the Issuer at Ciudad Grupo Santander, Avenida de Cantabria s/n, 28660 Boadilla del Monte, Madrid, Spain for so long as any Preferred Securities remain outstanding from the date of this Offering Circular:

(i) the constitutive documents of the Issuer;

(ii) the Agency Agreement; and

(iii) the audited consolidated financial statements of the Issuer for the three years ended 31 December 2013, 2012 and 2011.

7 Material Contracts

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

8 Interests of Natural and Legal Persons Involved in the Offer of the Preferred Securities

So far as the Issuer is aware, no person involved in the offer of the Preferred Securities has an interest in the offer of the Preferred Securities material to the offer.

9 Legend Concerning US Persons

The Preferred Securities and any Coupons appertaining thereto will bear a legend to the following effect: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*".

10 Listing of the Shares

The Common Shares are currently listed, among others, on the Spanish Stock Exchanges and are quoted on the Automated Quotation System (*Sistema de Interconexión Bursátil* (SIBE)) of the Spanish Stock Exchanges under the symbol "**SAN**". The ISIN for the Shares is ES0113900537. Information about the past and future performance of the Shares and their volatility can be obtained from the respective websites of each of the Spanish Stock Exchanges at www.bolsamadrid.es, www.borsabcn.es, www.bolsavalencia.es and www.bolsabilbao.es.

11 Listing of the Preferred Securities: ISIN and Common Code

The Preferred Securities will be admitted to listing on the Global Exchange Market (GEM) of the Irish Stock Exchange (ISE) and have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Preferred Securities bear the ISIN of XS1066553329 and the common code 106655332. The Bank may, at any time, apply for the listing any trading of the Preferred Securities in any other market.

12 Other Relationships

The Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the underwriters or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuers securities, including potentially the Preferred Securities. Any such short positions could adversely affect future trading prices of the Preferred Securities. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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