# Independent expert's report in respect of the common draft terms of merger between Banco Santander, S.A. (absorbing company) and Banco Español de Crédito, S.A. (absorbed company)

18 February 2013

# INDEPENDENT EXPERT'S REPORT IN RESPECT OF THE COMMON DRAFT TERMS OF MERGER BETWEEN BANCO SANTANDER, S.A. (ABSORBING COMPANY) AND BANCO ESPAÑOL DE CRÉDITO, S.A. (ABSORBED COMPANY)

To the Boards of Directors of Banco Santander, S.A. and Banco Español de Crédito, S.A.:

## 1. INTRODUCTION

For the purposes of section 34 of Law 3/2009 of 3 April on Structural Modifications of Mercantile Companies (hereinafter, the "Structural Modifications Act") and sections 340 and 349 of the Commercial Registry Regulations with our appointment as independent expert by Mrs. Emilia Tapia Izquierdo, Commercial Registrar for Cantabria, we are issuing on 18 February 2013, this independent expert's report in respect of the Common Draft Terms of Merger (hereinafter, also the "Draft Terms of Merger" or the "Draft Terms" of the companies Banco Santander, S.A. (hereinafter, "Banco Santander" or "the Absorbing Company") and Banco Español de Crédito, S.A. (hereinafter, "Banesto" or "the Absorbed Company") (hereinafter, jointly, "the Companies"), approved by both of the Boards of Directors on 9 January 2013.

In accordance with section 34.1 second paragraph, this report is the sole independent expert's report on the Draft Terms of Merger.

## 2. OBJECTIVES AND SCOPE OF OUR WORK

In accordance with the request from the Commercial Registry of Cantabria and other legislation, the scope of our work has consisted of the review of the Draft Terms of Merger, attached as Appendix to this report, and of all of the documentation put at our disposal related with this, to conclude if the exchange ratio of the shares held by shareholders in the Absorbed Company with shares in the Absorbing Company is justified, what were the methods followed for establishing this, whether such methods are appropriate, with an indication of the values obtained and any special valuation difficulties, if exists.

As Banco Santander will be covering the exchange of Banesto shares with treasury shares that it holds and so, therefore, there will not be a share capital increase by Banco Santander for this purpose, it is not necessary within the scope of our work to make a statement on the corporate assets contributed by the company being extinguished.

We have to mention that our work is independent in nature and, therefore, does not suppose any recommendation to the Companies´ Boards of Directors, to the Shareholders´ General Meeting or to third parties on the position they should take with regard to the planned merger operation or any other transactions by the Companies, or on the effects these might have for them. Our work does not have as its objective the analysis of the advisability of the Companies' business strategies or the reasons for these.

## 3. DESCRIPTION OF THE COMMON DRAFT TERMS OF MERGER

### 3.1. Identification of the companies involved

The following are the identification details for the Companies:

- Absorbing Company
  - Banco Santander is a Spanish credit institution, registered with the Bank of Spain's Register of Banks and Bankers under number 0049, it has its registered office in Santander, at Paseo de Pereda numbers 9-12, tax identification number A-39.000.013 and registered in the Santander Commercial Registry in sheet number 286, folio 64, 5th book of companies.
  - Banco Santander's share capital amounts to 5,269,341,572.5 Euros, divided into 10,538,683,145 shares each with a nominal value of 0.50 euros, represented by book entries, totally subscribed and paid up and admitted to trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges through the Market Interconnection System (Continuous Market).
- Absorbed Company, which is to be extinguished due to the absorption:
  - Banesto is a Spanish credit institution of Spanish nationality, registered with the Bank of Spain's Register of Banks and Bankers under number 0030; it has its registered address in Madrid, Avda. Gran Vía de Hortaleza number 3, tax identification number A-28,000,032 and registered in the Madrid Commercial Registry in volume 36 for companies, folio 177, sheet number 1.595.
  - Banesto's share capital amounts to 543,035,570.42 euros, divided into 687,386,798 shares each with a nominal value of 0.79 euros, represented by book entries, totally subscribed and paid up and admitted to trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges through the Market Interconnection System (Continuous Market).

### 3.2. The context and purpose of the merger

On 17 December 2012 Banco Santander informed that its Board of Directors had agreed to propose to Banesto a merger by absorption of Banesto by Banco Santander. On 19 December 2012 the Board of Directors of Banesto published its intention of starting a study of this merger.

The Boards of Directors of Banco Santander and Banesto at their respective meetings held on 9 January 2013 prepared and signed the Draft Terms of Merger regarding the merger by absorption of Banesto by Banco Santander.

The Draft Terms of Merger were prepared and approved by the Companies' Boards of Directors and signed by their members (with the exceptions indicated therein) in accordance with the provisions of sections 30 *et seq.* of the Structural Modifications Act. The Draft Terms of the Merger have been included in the Companies´ websites since 9 January 2013 for Banco Santander and 10 January 2013 for Banesto, from which they can be downloaded and printed.

For the purposes of sections 33 *et seq.* of the Structural Modifications Act, the members of the Companies' Boards of Directors must prepare the reports on the Draft Terms of Merger in which, in accordance with the provisions of those sections, they will explain and justify the Draft Terms in detail in their legal and economic aspects, with a special reference to the exchange ratio.

The Draft Terms of Merger are to be submitted for approval at the General Shareholders' Meetings of Banesto and Banco Santander in compliance with the provisions of section 40 of the Structural Modifications Act, planned to be held on 21 March 2013 and 22 March 2013, respectively.

Additionally, as part of the integration process under the "Santander" brand of banking activity by Grupo Santander in Spain, the business of Banco Banif, S.A. Unipersonal (hereinafter "Banif") will be integrated in a separate operation. This integration will also take place through the absorption of Banif by Banco Santander, the corresponding draft common terms of merger having been approved by the Boards of Directors of Banco Santander and Banif on 28 January 2013. These draft terms shall be subject to the approval of the shareholders at the same General Shareholders' Meeting of Banco Santander to which the Draft Terms of Merger are submitted, but the approval thereof at a General Shareholders' Meeting of Banif shall not be necessary, as the merger is special due to Banif being a company wholly owned by Banco Santander.

The merger by absorption of Banesto by Banco Santander occurs within the context of a profound restructuring of the Spanish financial system, which involves a major reduction in the number of institutions and the creation of larger institutions, given the need to optimise their income, margins and fees, normalise provisions and, in sum, improve efficiency.

According to the Draft Terms of Merger, the merger by absorption of Banesto by Banco Santander and the integration of Banif, the following objectives will be achieved:

- An improvement in the Group's efficiency through a structural modification that maximises the economies of scale: (i) a single corporate centre and a single management structure, (ii) integration of intermediate structures, and (iii) total integration of back offices, information technology systems, and operations. The synergies to be achieved with the integration of the Banesto and Banif businesses within Banco Santander are expected to be approximately 520 million euros before tax per year as from the third year following the merger.

- The strengthening of Santander Group's position in Spain through a national network with a balanced market share and with one of the strongest brands in the international financial system. In particular the merger will entail the existence of a single brand, with a more powerful network of approximately 4,000 branches throughout Spain, with the same corporate identity, providing a wider range of products and better quality of service.

Additionally, as detailed in the Draft Terms of Merger, there will be important advantages resulting for the Companies' shareholders:

- Shareholders of Banesto become shareholders of Banco Santander, a diversified international group with a presence in high-growth markets, very liquid shares, an attractive remuneration policy and a firm strategy of creating value for shareholders. Banesto shareholders will also benefit, as Banco Santander shareholders, from the synergies arising from the merger.
- For Banco Santander shareholders the transaction has a low execution risk and will create the important integration synergies. The merger is also expected to be positive from the earnings per share viewpoint.

### 3.3. Bases for the merger

Upon the terms set forth in of section 22 *et seq.* of the Structural Modifications Act, the merger shall be accomplished, if approved by the respective Shareholders' General Meetings, by means of the merger by absorption of Banesto by Banco Santander, with the termination by dissolution without liquidation of the former and the *en bloc* transfer of all of its assets and liabilities to the latter, which shall acquire by universal succession all of the rights and obligations of Banesto. As a consequence of the merger the shareholders of Banesto, other than Banco Santander, will receive Banco Santander shares in the exchange.

Section 11.1 of the Draft Terms of Merger specifies that for the purposes of section 36.1 of the Structural Modifications Act the merger balances are as of 31 December 2012 for Banco Santander and Banesto.

Banco Santander´s Board of Directors prepared such balance sheet in its meeting on 28 January 2013. Banesto Board of Directors prepared its merger balance sheet in its meeting held on 18 February 2013.

Banco Santander and Banesto´s balance sheets, duly verified by their auditors (Deloitte, S.L. in both cases), shall be submitted for approval at their respective General Shareholders' Meetings at which a decision on the merger will be adopted, prior to the approval of the merger resolution itself.

Also, pursuant to section 31.10 of the Structural Modifications Act, section 11.2 of the Draft Terms of Merger states for the record that the conditions upon which the merger is undertaken have been determined taking into consideration the annual accounts of the merging companies for the financial year ended 31 December 2012, the merging companies' financial years being the same as the calendar year.

Section 11.3 of the Draft Terms of Merger states, for section 31.9 of the Structural Modifications Act, that the assets and liabilities transferred by Banesto to Banco Santander are to be recorded in Banco Santander's accounts at what will be the corresponding amount, once the transaction has been completed, in the group's consolidated annual accounts at the date for the accounting effects of the merger.

### 3.4. Date of accounting effects and participations in profits of the new shareholders

The date of 1 January 2013 is established as the date from which the transactions of Banesto shall be deemed for accounting purposes to have taken place on behalf of Banco Santander.

Also, the shares delivered by Banco Santander to Banesto shareholders in order to cover the exchange shall give their holders the right, as from the date on which they are delivered, to participate in the profits of Banco Santander on the same terms as the other shares of Banco Santander outstanding at such date. As indicated in the Draft Terms of the Merger, Banesto shareholders will not have the right to participate in the Banco Santander Scrip Dividend (*Santander Dividendo Elección*) programmed for April/May 2013, the reference date of which is prior to the planned date for conclusion of the merger.

### 3.5. Ancillary obligations, special rights, and securities other than those representing capital

As indicated in the Draft Terms, there are no ancillary obligations (*prestaciones accesorias*), special preferred shares, or persons with special rights at Banco Santander or Banesto other than simple ownership of the shares, for which reason there is no need to grant any special rights or offer any options.

The Banco Santander shares delivered to Banesto shareholders as a result of the merger will not give the holders thereof any special rights.

### 3.6. Exchange ratio, method for satisfying the exchange and the shares eligible for exchange

The exchange ratio for the shares of Banco Santander and Banesto shares has been determined on the basis of the fair value of their assets and liabilities and shall be 0.633 shares of Banco Santander, each with a nominal value of 0.5 euros, for every Banesto share, each with a nominal value of 0.79 euros, without provision for any supplementary cash.

As set forth in the Draft Terms of Merger, Banco Santander will cover the exchange of Banesto shares with outstanding shares held as treasury shares, and will therefore not increase the share capital of Banco Santander.

The outstanding shares of Banesto shall form part of the exchange, except for those that may not be included by application of section 26 of the Structural Modifications Act, i.e. neither the shares owned by Banco Santander (including those acquired, if applicable, through the odd-lot agent) nor the Banesto shares held as treasury shares. As of 31 December 2012 Banesto held, through its subsidiary Dudebasa, S.A., 4,982,936 treasury shares, which represented 0.7249% of its capital.

As set forth in the Draft Terms, as of 31 December 2012 Banco Santander was a direct shareholder of Banesto with 88.2102% of its share capital and, indirectly through its wholly-owned subsidiary Cántabro Catalana de Inversiones, S.A., a further 0.7873%.

### 3.7. Conditions precedent

The effectiveness of the merger is subject to the following conditions precedent:

- the authorisation from the Ministry of Economy and Competitiveness for the absorption of Banesto by Banco Santander, pursuant to the provisions of section 45.c) of the Banking Act of 31 December 1946.
- the acquisition of the other authorisations that must be obtained from the Bank of Spain, the National Securities Market Commission, or any other governmental body or other supervisory entity by reason of the business activities of Banesto or its subsidiaries.

## 4. VALUATION METHODS FOLLOWED FOR DETERMINING THE EXCHANGE RATIO

### 4.1. Main valuation method applied by the Companies' Boards of Directors

In accordance with section 25 of the Structural Modifications Act, the exchange ratio has been based on the fair value of the assets and liabilities of Banco Santander and Banesto.

In order to determine the fair value of the Companies' assets and liabilities for the purpose of setting the exchange ratio, the reference method applied by the Boards of Directors was based on the Stock Exchange listing price, the use of which as valuation criterion is justified by being the criterion that is most commonly applied in mergers of listed companies and the method that tends to be considered as preferential in the determination of the fair value in the case of listed securities (by way of example, in section 504.2 of the Companies' Act, for the purposes of determining the fair value of the shares to be issued in capital increases with exclusion of preferential subscription rights, which is presumed, unless stated to the contrary, to be that resulting from the listed share price).

With the application of the agreed reference method account has been taken of the Companies' listing prices at the close of market on 14 December 2012, the trading day immediately prior to the first public notice of merger.

At the close of trading on 14 December 2012, the share price for Banco Santander was 5.90 euros, with that for the Banesto share being 2.99 euros. On these listed prices the agreed exchange ratio means valuing the Banesto shares at 3.73 euros per share, resulting in a premium offered to Banesto's shareholders of 25% over the market price at that date.

In determining the exchange ratio with the aforementioned premium over the listed price as of 14 December 2012 the Boards of Directors of Banco Santander and Banesto have considered the following aspects among others:

- The synergies to be achieved with the merger of both Companies.
- The fact that Banesto shareholders will not be able to receive the remuneration that Banco Santander shareholders will receive within the framework of the Banco Santander Scrip Dividend (Santander Dividendo Elección) programme in January/February and April/May 2013, in either cash or shares of Banco Santander, because it is expected that the merger will be completed in the month of May. Banesto does not plan to distribute any dividend.

According to the information included in the Draft Terms of Merger, Banco Santander contracted the services of Deutsche Bank, S.A.E. (hereinafter, "Deutsche Bank") as financial adviser for the merger. In the performance of this contract and at the request of the Board of Directors of Banco Santander for its exclusive use, Deutsche Bank issued said Board with a fairness opinion on 9 January 2013, which stated that, from a financial point of view, the agreed exchange ratio is fair to Banco Santander.

On the other hand, Banesto contracted the services of Barclays Bank PLC (hereinafter, "Barclays") and Goldman Sachs International (hereinafter, "Goldman Sachs") as financial advisers in respect of the consideration that results from the agreed exchange ratio that is to be received by the shareholders of Banesto other than Banco Santander and the companies of its group and affiliates within the framework of the merger. In the performance of this contract and at the request of the Board of Directors for its exclusive use, Barclays and Goldman Sachs each issued fairness opinions to said Board, both dated 9 January 2013 stating that, from a financial point of view, the agreed exchange ratio is fair to the shareholders of Banesto other than Banco Santander and the companies of its Group and affiliates.

## 4.2. Contrasting methods used by the Companies' Boards of Directors

### 4.2.1. Contrasting methods used by the Board of Directors of Banco Santander

The Board of Directors of Banco Santander, considered various methods for contrasting valuation of the fairness of the agreed exchange rate from Banco Santander's viewpoint.

The following are the methods used:

a) Historical listing prices

This analysis was based on determining the exchange ratio calculated on the basis of the implied value of the Companies resulting from taking the average of the listing prices for Banco Santander and Banesto for different periods of time prior to the announcement of the merger, as well as the number of shares in circulation at the date of the Draft Terms of Merger.

As commented, the resulting estimated exchange ratios on the basis of Banesto and Banco Santander securities resulting under this method are as follows:

| Historical listing prices | Banco Santander | | Banesto | | Exchange Ratio |
|---|---|---|---|---|---|
| | Euros per share | Value in Euros (Million) | Euros per share | Value in Euros (Million) | |
| Average last month | 5.79 | 59,760 | 2.80 | 1,923 | 0.483 |
| Average last three months | 5.80 | 59,863 | 2.88 | 1,980 | 0.497 |
| Average last six months | 5.49 | 56,663 | 2.63 | 1,808 | 0.479 |
| Average last year | 5.29 | 54,599 | 3.03 | 2,086 | 0.574 |
| Average last three years | 7.48 | 77,202 | 5.28 | 3,629 | 0.706 |

b) Analysts' target prices

This method consisted of determining the exchange ratio taking into account the Companies' values that are implicitly estimated on the basis of the target prices assigned to the shares in the reports from market financial analysts published since 1 October 2012 and considering the number of shares in circulation at the date of the Draft Terms of Merger.

The following valuations for the Companies and implicit exchange ratios were derived using this method:

| Analysts´ target prices | Banco Santander | | Banesto | | Exchange Ratio |
|---|---|---|---|---|---|
| | Euros per share | Value in Euros (Million) | Euros per share | Value in Euros (Million) | |
| Median | 5.98 | 61,669 | 3.08 | 2,117 | 0.515 |
| Average | 5.91 | 60,943 | 3.05 | 2,099 | 0.517 |
| Maximum | 9.11 | 94,026 | 5.00 | 3,437 | 0.549 |
| Minimum | 4.10 | 42,317 | 1.80 | 1,237 | 0.439 |

c) Comparable listing companies

As valuation methodology for contrasting the agreed exchange ratio for the operation, an analysis was also made of the relative valuations (listing multiples) of companies that are comparable with Banco Santander and Banesto and currently listed, taking into consideration the price/book value (market capitalization / book value), this being considered to be more appropriate in the current Spanish market situation.

Applying this methodology gives the following results for the Companies' valuations and the implied exchange ratio:

| Comparable listing companies | Banco Santander | | Banesto | | Exchange Ratio |
|---|---|---|---|---|---|
| | Euros per share | Value in Euros (Million) | Euros per share | Value in Euros (Million) | |
| Average | 5.56 | 57,355 | 2.92 | 2,008 | 0.526 |
| Maximum | 6.45 | 66,613 | 4.17 | 2,865 | 0.646 |
| Minimum | 5.09 | 52,545 | 2.28 | 1,567 | 0.448 |

d) Precedent transactions

The valuation method based on comparable precedent transactions that have recently taken place in Spain has also been considered in calculating the implied value of Banesto, taking into account the prices at which the aforementioned transactions have been completed and the premium/discount that they represented with regard to the listing prices at the time of the transaction. The selection of precedents for use excluded those transactions for which public assistance was received (for example, asset protection schemes).

The following results were obtained using this methodology:

| Precedent transactions | Banco Santander | | Banesto | | Exchange Ratio |
|---|---|---|---|---|---|
| | Euros per share | Value in Euros (Million) | Euros per share | Value in Euros (Million) | |
| Average | 5.90 | 60,895 | 3.21 | 2,206 | 0.544 |
| Maximum | 5.90 | 60,895 | 3.92 | 2,692 | 0.664 |
| Minimum | 5.90 | 60,895 | 2.66 | 1,829 | 0.451 |

e) Dividend Discount Model

Finally, the dividend discount model was used to calculate the value in use of the Companies. This method consists of calculating the value of an entity on the basis of the present value of the dividends that the entity might pay once its capital needs for each year have been covered. The existing business plans were used as the basis for this.

Applying this method values in use were estimated for Banesto of €4,917 million and €115,348 million for Banco Santander, giving an exchange ratio of 0.640 Banco Santander shares for each Banesto share.

4.2.2. Contrasting methods used by the Board of Directors of Banesto

The Board of Directors of Banesto, with the support of the Merger Committee (created *ad hoc* in the Board of the Directors, as informational and consultative, with the main purpose of leading and supervising the investigation and decision-making process for the merger), has considered various methods for contrasting the fairness of the agreed exchange ratio from the viewpoint of Banesto's minority shareholders.

The following are the methods used:

a) Historical listing prices

This analysis was based on determining the exchange ratio calculated on the basis of the average listing prices for Banco Santander and Banesto for different periods of time prior to the announcement of the merger.

Under this method the following exchange ratios were the estimated for the respective listing prices for the Banesto and Banco Santander shares during the periods under consideration:

| Historical listing prices | Banco Santander | Banesto | Exchange ratio |
|---|---|---|---|
| | Euros per share | Euros per share | |
| Average last month | 5.79 | 2.80 | 0.483 |
| Average last three months | 5.80 | 2.88 | 0.496 |
| Average last year | 5.29 | 3.03 | 0.573 |

b) Comparable listing companies

As valuation methodology for contrasting the agreed exchange ratio for the operation, an analysis was also made of the relative valuations (listing multiples) of companies that are comparable with Banco Santander and Banesto and currently listed, taking into consideration for this analysis the multiples for price/book value, price/earnings and projected yield compared with price/book value.

The application of this method gives valuations that sustain the agreed exchange ratio.

c) Analysts' target prices

This method consisted of determining the exchange ratio from the target prices set out in reports from financial market analysts.

Applying this method, the resulting exchange ratio attributed respectively to the Banco Santander and Banesto shares, according with 22 and 16 recent analysis reports taken into account for these purposes, all prior to 14 December 2012 is 0.517 Banco Santander shares for each Banesto share.

d) Premiums in other operations

Finally, an analysis was made of the premiums over listed price in acquisition operations (whether or not mergers in the strict sense) for listed companies in Spain and also promoted by the majority shareholder (more than 30% of capital).

This analysis shows that over the last 15 years the premium by reference to the average listing price for the 90 days prior to the date the operation was announced amounted to an average of 23.3%.

## 5. SCOPE AND PROCEDURES OF OUR WORK

Our work was carried out using the procedures described below:

- Obtaining the following information:
  - Document requesting the appointment of independent expert filed on 11 January 2013 by Banco Santander with the Cantabria Commercial Registry with regard to the Draft Terms of Merger, dated 11 January 2013.
  - Common Draft Terms of Merger between Banco Santander and Banesto on 9 January 2013.
  - Certificate of the agreements passed by the Board of Directors of Banco Santander in its meeting held on 9 January 2013.
  - Certificate of the agreements passed by the Board of Directors of Banesto in its meeting held on 9 January 2013.
  - Minutes of the Banesto Board of Directors meetings held on 19 December 2012 and 9 January 2013.
  - Documents on economic justification for the exchange ratio provided by Banco Santander management.
  - Documents on economic justification for the exchange ratio provided by Banesto management.
  - Fairness opinion issued by Deutsche Bank, Banco Santander's financial adviser, dated 9 January 2013.
  - Fairness opinions issued by Barclays and Goldman Sachs, Banesto's financial advisers, dated 9 January 2013.
  - Internal presentation by Banco Santander with regard to the valuation analyses carried out for the purposes of contrasting the proposed exchange ratio.
  - Public presentation from Banco Santander dated December 2012 under the name "Merger of Banesto with Santander".

- Individual and consolidated annual accounts, prepared by the Companies' Boards of Directors for the financial year ended 31 December 2012.
- The Companies' audited interim financial statements, individual and consolidated, as of 30 June 2012.
- The Companies' audited annual accounts, individual and consolidated, for the financial year ended 31 December 2011.
- Certain public statements, reserved statements and statements of own funds, individual and consolidated, for Banco Santander and Banesto corresponding to the financial years 2011 and 2012.
- Long-term business plans and financial projections for the Banco Santander and Banesto, as well as the detail and main assumptions used.
- Stock market analysts' reports relating to Banco Santander and Banesto.
- Stock market information relating the Companies' historical listing prices.
- Public stock market and financial information for comparable listed companies.
- Public information relating to comparable precedent transactions.
- Relevant facts sent by the Companies to the Stock Market National Commission on 17 December 2012 and 9 January 2013 relating to the announcement of the merger and the signing of the Draft Terms by the Boards of Directors respectively.
- Any other public economic and financial information related with the Companies' merger operation.
- Other information considered to be of interest for the performance of our work.

▪ Analysis and review of the information mentioned in the above section, taking into account the context and characteristics of the proposed merger.

▪ Analysis and review of the valuation methodologies used by the Boards of Directors of Banco Santander and Banesto.

▪ Analysis of the exchange ratio established in the Draft Terms of Merger based on the valuation assigned to both the Absorbed Company and the Absorbing Company.

▪ Conversations and meetings held with the Companies' managements, as well as with their financial advisers and auditors for the purpose of gathering other information considered to be of use in the performance of our work.

▪ Contrasting the economic value of the Companies with the application of generally accepted valuation methodologies used in the valuation of financial institutions under the going concern criterion and taking into account the context and characteristics of the proposed merger.

The methodologies considered are those listed below:

- Historical listing prices.
- Market analysts' target prices.
- Multiples of comparable listing companies.
- Multiples of precedent transactions.
- Dividend Discount Model.

▪ Performance of a sensitivity analysis on the most significant variables that could affect the businesses of Banco Santander and Banesto and, thereby the values obtained.

▪ Obtaining a letter signed by the Administrators or Directors with sufficient powers to represent each of the Companies in the arrangements related with their merger, confirming to the best of their knowledge and understanding that they have provided us with all of the information considered to be relevant for the preparation of our independent expert's report and that there have been no important events that could substantially modify the agreed exchange ratio occurring between the date of the Draft Terms of Merger and the date of this report and which, therefore, could affect our conclusions.

## 6. SPECIAL VALUATION DIFFICULTIES

We should mention that any valuation or valuation review work involves subjective interpretations and for estimates to be made for future events that are uncertain at the valuation date, it being generally accepted that no valuation method offers results that are totally exact and indisputable, but rather ranges in which the analysed value can be reasonably placed.

In works of this nature the scope of our work is based fundamentally on the analysis of the relative value of the Companies. In consequence, this work does not necessarily constitute an opinion on the absolute values used in determining the aforementioned exchange ratio and neither should it be considered as such.

One of the contrasting valuation methods used by the Administrators of Banco Santander has been the value in use based on the dividend discount model for the Companies' shareholders. In this regard we should state that the results of its application do not necessarily lead to their possible fair value or market value. We should also point out that this valuation method is based on financial projections for the Companies' dividends carried out by Banco Santander management and which, given the uncertainties inherent in any estimate of future events, may not materialise as defined, affecting there the results thereof.

The scope of our work has not included a review and evaluation of the accounting, tax, legal, employment or environmental situation of the Company or of its operational or any other type of situation. Consequently, the risks derived from these situations, if any, have not been taken into consideration in carrying out our work and in the issue of the corresponding conclusions.

Our work has been based on the information provided mostly by the Companies as well as on information from public sources, on the assumption that this is complete and correct. BDO does assume or guarantee, whether expressly or implicitly, the veracity, accuracy and integrity of this information received and reflected in this document.

Part of our work was based on the individual and consolidated annual accounts prepared by the Board of Directors of the Companies, and will be audited previously of the approval of the Shareholders' Meetings of the Companies. Our work has not considered any eventual adjustment that may derive form the result of the audit of those accounts, in any case.

## 7. CONCLUSIONS

In accordance with the bases of information and the work performed and with the exclusive purpose of complying with the provisions of section 34 of the Structural Modifications Act, sections 340 and 349 of the Commercial Registry Regulations and other applicable legislation, and subject to what is described in section 6 above, we consider that in the context of the merger being analysed, the exchange ratio proposed by the Companies' Boards of Directors is justified and that the valuation methods used and the values arrived at with these are appropriate.

Our conclusion should be interpreted within the context of the scope of our examinations, without the possibility of any additional responsibility being derived to that related with the suitability of the valuation methods used and the proposed exchange ratio.

This report has been prepared exclusively for compliance with the provisions of section 34 of Law 3/2009 on Structural Modifications to Business Corporations and other applicable legislations, and so it may not be used for any other purpose.

BDO Auditores, S.L.

Eduardo Pérez
Partner

Madrid, 18 February 2013

## APPENDIX:

## COMMON DRAFT TERMS OF MERGER APPROVED BY THE BOARDS OF DIRECTORS OF BANCO SANTANDER, S.A. AND BANCO ESPAÑOL DE CRÉDITO, S.A.

# Common Draft Terms of Merger

BETWEEN

**BANCO SANTANDER, S.A.**

(*as absorbing company*)

AND

**BANCO ESPAÑOL DE CRÉDITO, S.A.**

(*as absorbed company*)

Boadilla del Monte and Madrid, 9 January 2013

## 1. INTRODUCTION

For purposes of the provisions of sections 30 and 31, *et seq.* of Law 3/2009 of 3 April, on Structural Modifications of Mercantile Companies (hereinafter, the "**Structural Modifications Act**"), the undersigned, in their capacity as members of the Board of Directors of Banco Santander, S.A. ("**Santander**") and Banco Español de Crédito, S.A. ("**Banesto**"), respectively, prepare and sign these common draft terms of merger (*proyecto común de fusion*) (hereinafter, the "**Draft Terms of Merger**" or the "**Draft Terms**"), which shall be subject to the approval of the General Shareholders' Meetings of Santander and Banesto in accordance with the provisions of section 40 of the Structural Modifications Act.

The integration of Banco Banif, S.A. ("**Banif**") in Santander will be executed in a separate operation.

The text of the Terms is as follows.

## 2. RATIONALE FOR THE MERGER

The merger by absorption of Banesto by Santander occurs within the context of a profound restructuring of the Spanish financial system, which involves a major reduction in the number of institutions and the creation of larger institutions.

In addition, the Spanish financial system has lost profitability over the last five years due to a drop in margins, which has adversely affected efficiency despite an improvement in costs, as well as to cyclically high provisions. In brief, the financial sector needs to optimise its income, margins, and fees, normalise provisions, and, in sum, improve efficiency.

Within this context, the merger by absorption of Banesto by Santander and the aforementioned integration of Banif will allow, on the one hand, for an improvement in the efficiency of the Group through a structural modification that maximises economies of scale and, on the other, for a strengthening of the position of the Santander Group in Spain, selectively increasing its market share under a single brand.

A) **Efficiency improvements** can be achieved by integrating structures, through: (i) a single corporate centre and a single management structure, (ii) integration of intermediate structures, and (iii) total integration of back offices, information technology systems, and operations. The estimated time frame for operational integration of Santander and Banesto is one year. The foregoing will result in an optimisation of branches, albeit at a slower pace than that of the market, which will help to increase market share.

   The synergies that are expected to be achieved with the transaction are approximately 520 million euros before taxes per year as from the third year following the merger, broken down as follows:

   1. Cost synergies: 30 million euros in technology, 69 million euros in real estate, 32 million euros in operations, 8 million euros in advertising and brand image, and 27 million euros in other expenses, which, together with an approximate saving of 16 million euros in amortisation and depreciation, would entail total savings of approximately 183 million euros.

Furthermore, pre-tax savings of approximately 237 million euros are expected from progressively reducing the Group's personnel in Spain over three years.

Overall, cost synergies are expected to reach approximately 420 million euros.

2. Revenue synergies: the goal is to improve income by approximately 100 million euros through the single brand and new business structure, leveraging the strength of Banesto's traditional businesses such as SMEs and corporate offices.

B) As regards **strengthening the Group's position in Spain**, a national network with a balanced market share and one of the strongest brands in the international financial system will be achieved with the merger. In particular, the merger will entail the existence of a single brand, with a more powerful network of approximately 4,000 branches throughout Spain, with the same corporate identity, providing a wider range of products and better quality of service.

It is therefore expected that average market share in Spain will rise from 11% in 2012 to 13% in 2015, and in deposits will rise from 14% currently to 16% in 2015. It is also expected that the interest margin will increase by approximately 30 basis points in 3 years.

In sum, the goal of the Group is to achieve in three years a return on equity (ROTE) of between 12% and 15% on the business in Spain.

In other respects, the business improvements will be accompanied by advantages for the shareholders of Santander and Banesto:

- Shareholders of Banesto become shareholders of Santander, a diversified international group with a presence in high-growth markets, very liquid shares, an attractive remuneration policy, and a firm strategy of creating value for shareholders. As will be detailed below, this conversion into shareholders of Santander will be accomplished pursuant to an exchange ratio of 0.633 shares of Santander for each share of Banesto, which is a very significant premium for Banesto shareholders taking into account the listing prices of both shares prior to publication of the merger initiative. Banesto shareholders will also benefit, as Santander shareholders, from the synergies arising from the merger.

- For the shareholders of Santander, the transaction has low execution risk and will create significant synergies from integration (as stated, cost and income synergies are expected to reach approximately 520 million euros). The merger is also expected to be positive from the earnings per share viewpoint, with a 3% improvement by the third year.

## 3. IDENTIFICATION OF COMPANIES INVOLVED

### 3.1 Description of Santander

Banco Santander, S.A. is a Spanish credit institution with a registered office at Paseo de Pereda, números 9 al 12, 39004 (Santander), holding tax identification number A-39000013, and is registered with the Mercantile Register of Santander at sheet 286 folio 64 book 5 on Companies, Entry 1, and with the Banks and Bankers Register of the Bank of Spain under number 0049.

The share capital of Santander is equal to 5,160,589,875 euros, divided into 10,321,179,750 shares, each with a nominal value of 0.50 euro, represented by book entry shares, fully subscribed and paid-up, and admitted to trading on the Madrid, Barcelona, Valencia, and Bilbao Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market).

### 3.2 Description of Banesto

Banco Español de Crédito, S.A. is a Spanish credit institution with a registered office at avenida Gran Vía de Hortaleza número 3, 28033 (Madrid), holding tax identification number A-28000032, and registered with the Mercantile Register of Madrid at volume 36 on companies, folio 177, page number 1,595, and with the Banks and Bankers Register of the Bank of Spain under number 0030.

The share capital of Banesto is equal to 543,035,570.42 euros, divided into 687,386,798 shares, each with a nominal value of 0.79 euro, represented by book entry shares, fully subscribed and paid-up, and admitted to trading on the Madrid, Barcelona, Valencia, and Bilbao Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market).

## 4. STRUCTURE OF THE TRANSACTION

The legal structure chosen to integrate the businesses of Santander and Banesto is that of a merger, upon the terms set forth in sections 22, *et seq.* of the Structural Modifications Act.

The merger shall be accomplished by means of the acquisition of Banesto (absorbed company) by Santander (absorbing company), with the termination by means of dissolution without liquidation of the former and the *en bloc* transfer of all of its assets and liabilities to the latter, which shall acquire by universal succession all of the rights and obligations of Banesto (hereinafter, the "**Merger**"). The shareholders of Banesto other than Santander shall receive shares of Santander in exchange as a result of the Merger.

## 5. MERGER EXCHANGE RATIO

### 5.1 Exchange Ratio

The exchange ratio for the shares of Santander and Banesto, which has been determined based on the fair value of their corporate assets, shall be 0.633 shares of Santander, each with a nominal value of 0.5 euro, for each share of Banesto, each with a nominal value of 0.79 euro, without provision for any supplemental cash remuneration.

This exchange ratio has been agreed to and calculated based on the methodologies that will be explained and for which a rationale will be provided in a report that the Board of Directors of Santander and Banesto will issue pursuant to the provisions of section 33 of the Structural Modifications Act.

The shares of both Santander and Banesto are listed on official securities markets. Therefore, in order to determine the fair value of the corporate assets of both companies, the directors of Santander and Banesto have considered, among other valuation methods, the stock exchange listing price of both companies at the close of trading on 14 December 2012 (the trading day immediately preceding the announcement of the transaction).

Taking into account that the shares of Santander at the close of trading on 14 December 2012 were listed at 5.90 euros per share, the agreed exchange ratio would value the shares of Banesto at 3.73 euros per share. Given that Banesto's shares were listed at 2.99 euros per share on 14 December 2012, the exchange ratio represented a premium of 25% as of such date.

In determining the exchange ratio, with such premium over the market price on 14 December 2012, Santander and Banesto have taken the following aspects, among others, into account:

- The synergies to be achieved with the Merger of both companies.
- That Banesto's shareholders will not be able to receive the remuneration that Santander's shareholders will receive within the framework of the Santander Scrip Dividend (*Santander Dividendo Elección*) programme, in January/February and April/May 2013, in either cash or shares of Santander, because the Merger will be consummated in the month of May. It is not expected that Banesto will distribute any dividend.

Deutsche Bank, S.A.E, as the financial advisor of Santander for the Merger, has stated to the Board of Directors of the company in a fairness opinion that the agreed exchange ratio is fair, from a financial point of view, to Santander

Barclays Bank PLC and Goldman Sachs International Spanish Branch, as financial advisors for Banesto, have stated to the Board of Directors of such company their respective fairness opinions with respect to the remuneration which results from the agreed exchange ratio to be received by the shareholders of Banesto other than Santander and the companies of its group and affiliates within the framework of the Merger. According to such opinions, as of 9 January 2013 the agreed exchange ratio is fair from a financial viewpoint for the shareholders of Banesto other than Santander and the companies of its group and affiliates.

It is expressly stated that the proposed exchange ratio shall be subject to the verification of the independent expert appointed by the Mercantile Registry of Santander in accordance with the provisions of section 34 of the Structural Modifications Act.

### 5.2 Methods for Covering the Exchange

Santander shall cover the exchange of Banesto shares pursuant to the exchange ratio set forth in section 5.1 of these Draft Terms of Merger with treasury shares, and shall therefore not increase the share capital of Santander for that purpose.

In any event, by application of section 26 of the Structural Modifications Act, there shall be no exchange of either the Banesto shares owned by Santander or the Banesto shares held in treasury, which shall be cancelled. As of 31 December 2012, Banesto held, through its subsidiary DUDEBASA, 4,982,936 treasury shares, which represented 0.7249% of its share capital.

It is stated for the record that as of 31 December 2012 Santander directly held 88.2102 % of the share capital of Banesto and indirectly held 0.7873 % through its wholly-owned subsidiary Cántabro Catalana de Inversiones, S.A. It is expected that Santander will acquire the shares of Banesto held by Cántabro Catalana de Inversiones, S.A. prior to the effective date of the Merger. This transfer will allow the entirety of Santander's interest in Banesto to be held directly, thus avoiding the generation of indirect treasury holdings as a result of the Merger.

### 5.3 Exchange Procedure

The exchange of the shares of Banesto for the shares of Santander shall occur once the Merger has been approved at the General Shareholders' Meetings of Santander and Banesto, the equivalent documentation referred to in section 40.1 c), *et seq.* of Royal Decree 1310/2005 of 4 November has been submitted to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (hereinafter, the "**CNMV**"), the conditions precedent referred to in section 16 have been met, and the merger deed has been registered with the Mercantile Register of Santander.

The exchange shall take place as from the date indicated in the announcements to be published in one of the widely-circulated newspapers in the autonomous communities of Cantabria and Madrid, respectively, in the Official Gazettes (*Boletines Oficiales*) of the Spanish Stock Exchanges, and in the Official Gazette of the Mercantile Register. Santander shall act as agent for such purpose, which shall be indicated in the above-mentioned announcements.

The exchange of the shares of Banesto for shares of Santander shall be implemented through the Iberclear participants that are depositaries thereof in accordance with the procedures established for the book-entry system in accordance with the provisions of Royal Decree 116/1992 of 14 February, and with the application of the provisions of section 117 of the Companies Act (*Ley de Sociedades de Capital*), to the extent applicable.

Banesto shareholders holding a number of shares that will not give them a whole number of Santander shares under the agreed exchange ratio may acquire or transfer shares in order to exchange them in accordance with such exchange ratio. Without prejudice to the foregoing, the companies participating in the Merger shall establish mechanisms to facilitate the exchange by such Banesto shareholders, including the appointment of an "odd-lot agent".

The shares of Banesto will be cancelled as a result of the Merger.

## 6. ANCILLARY OBLIGATIONS, SPECIAL RIGHTS, AND RIGHTS OTHER THAN THOSE REPRESENTING CAPITAL

For purposes of sections 31.3 and 31.4 of the Structural Modifications Act, it is stated for the record that there are no ancillary obligations (*prestaciones accesorias*), special preferred shares, or persons with special rights at Santander or Banesto other than simple ownership of the shares, for which reason there is no need to grant any special right or offer any options.

The Santander shares delivered to Banesto shareholders as a result of the Merger will not give the holders thereof any special rights.

## 7. BENEFITS EXTENDED TO INDEPENDENT EXPERTS AND TO THE DIRECTORS

With respect to section 31.5 of the Structural Modifications Act, it is stated that no benefits of any type will be extended to the independent expert that will participate in the Merger process, or to the directors of Santander or Banesto.

## 8. DATE AS FROM WHICH THE HOLDERS OF SHARES DELIVERED IN EXCHANGE WILL HAVE THE RIGHT TO PARTICIPATE IN THE PROFITS OF SANTANDER

As from the date on which they are delivered, the shares delivered by Santander to Banesto shareholders in order to cover the exchange, all upon the terms set forth in section 5 above, shall give their holders the right to participate in the profits of Santander upon the same terms as the other shares of Santander outstanding on such date. It is hereby stated for the record that Banesto's shareholders will not be entitled to the Santander Scrip Dividend (*Santander Dividendo Elección*) programme of April/May 2013, the record date of which is previous to the date in which the Merger will be consummated.

## 9. DATE OF ACCOUNTING EFFECTS OF THE MERGER

1 January 2013 is established as the date from which the transactions of Banesto shall be deemed for accounting purposes to have taken place on behalf of Santander.

For appropriate purposes, it is stated for the record that the retroactive effect thus determined for accounting purposes is in accordance with the General Chart of Accounts (*Plan General de Contabilidad*) approved by Royal Decree 1514/2007 of 16 November.

## 10. AMENDMENT OF THE BYLAWS OF SANTANDER

The Bylaws of Santander will not be amended as a result of the Merger. Therefore, upon completion of the Merger, Santander, as the absorbing company, will continue to be governed by its current Bylaws, the text of which appears on Santander's corporate website (www.santander.com) (and a copy of which is attached to these Draft Terms of Merger as **Annex 1** for purposes of the provisions of section 31.8 of the Structural Modifications Act).

Without prejudice to the foregoing, and independently of the Merger, the Board of Directors of Santander may, if applicable, include the proposed bylaw amendments that it deems appropriate in the agenda for the General Shareholders' Meeting.

## 11. MERGER BALANCE SHEETS, ANNUAL ACCOUNTS, AND VALUATION OF ASSETS AND LIABILITIES OF BANESTO TO BE TRANSFERRED

### 11.1 Merger Balance Sheet

For purposes of the provisions of section 36.1 of the Structural Modifications Act, the balance sheets of Santander and Banesto as of 31 December 2012 shall be deemed to be the merger balance sheets.

The merger balance sheets of Santander and Banesto, duly verified by their auditors, shall be submitted for approval of the General Shareholders' Meetings of each of the companies that must decide on the Merger prior to the adoption of the Merger resolution itself.

### 11.2 Annual Accounts

For purposes of the provisions of section 31.10 of the Structural Modifications Act, it is hereby stated for the record that the terms upon which the Merger will be carried out have been determined taking into account the annual accounts of the merging companies for the financial year ended 31 December 2012.

Such annual accounts as well as the merger balance sheets referred to in section 11.1 above, as well as the other documents mentioned in section 39 of the Structural Modifications Act, shall be included in the websites of Santander and Banesto prior to the publication of the notice of meeting of the General Shareholders' Meetings to decide on the Merger, with the ability to download and print them.

### 11.3 Valuation of Assets and Liabilities of Banesto to be Transferred

As a result of the Merger, Banesto shall be dissolved without liquidation, and its assets and liabilities shall be transferred *en bloc* to Santander.

For purposes of the provisions of section 31.9 of the Structural Modifications Act, it is hereby stated for the record that the assets and liabilities transferred by Banesto to Santander will be recorded on Santander's books in the amount corresponding thereto, after the transaction has been implemented, in the consolidated annual accounts of the group as of the effective date of this Merger for accounting purposes, i.e. 1 January 2013.

## 12. IMPACTS OF THE MERGER ON EMPLOYMENT, IMPACT ON GENDER WITHIN THE MANAGEMENT BODIES, AND IMPACT ON CORPORATE SOCIAL RESPONSIBILITY

### 12.1 Possible Impacts of the Merger with respect to Employment

Pursuant to the provisions of section 44 of the Restated Text of the Statute of Workers Act (*Ley del Estatuto de los Trabajadores*) approved by Royal Legislative Decree 1/1995 of 24 March, which governs transfers of undertakings, Santander shall subrogate to the labour rights and obligations of the employees of Banesto.

The institutions participating in the Merger shall comply with their obligations to provide information to and, if applicable, to consult with the legal representatives of the workers of each institution, in accordance with the provisions of labour regulations. Notice of the Merger shall also be given to public agencies where appropriate, and in particular to the General Social Security Revenue Office (*Tesorería General de la Seguridad Social*).

The integration of the organisations of Santander and Banesto and the optimisation of the network resulting from the Merger will entail a reduction in the number of employees, which will take place progressively through relocation to other units of the Santander Group, both in Spain and abroad, naturally-occurring turnover of the work force, and incentivised redundancies. In any case, the integration of employees shall take place with respect for applicable legal provisions in each case, especially with respect to the rights of the representatives of the workers to information and consultation, holding relevant meetings and negotiations with them to allow for the development of such employee integration with the greatest agreement possible among the parties.

### 12.2 Possible Impact on Gender within Management Bodies

It is not expected that the Merger will produce changes in the composition of Santander's management body.

### 12.3 Impact of the Merger on Corporate Social Responsibility

It is expected that the Merger will not have an impact on Santander's social responsibility policy.

## 13. APPOINTMENT OF INDEPENDENT EXPERT

Pursuant to the provisions of section 34.1 of the Structural Modifications Act, the Boards of Directors of Santander and Banesto shall ask the Mercantile Register of Santander (where the absorbing company is registered) to appoint an independent expert to prepare a single report regarding these Draft Terms of Merger.

## 14. BANESTO MERGER COMMITTEE

It is stated for the record that these Draft Terms of Merger are the result of a process of analysis and decision-making carried out by the management bodies of both Santander and Banesto. As regards the latter company, such analysis has been entrusted to an ad hoc informational and consultative committee within its Board of Directors, the main purpose of which has been to lead and protect the investigation and decision-making process for the sole purposes of this Merger.

This committee (the creation of which was the subject of a notice of significant event sent to the CNMV on 19 December 2012 (registration number 178,973)) is made up of three independent directors (José Luis López Combarros, Juan Antonio Sagardoy Bengoechea and Carlos Sabanza Teruel) and is called the "Merger Committee".

## 15. TAX REGIME

The Merger is subject to the tax regime established in chapter VIII of title VII of Royal Legislative Decree 4/2004 of 5 March approving the Restated Text of the Company Income Tax Act, and section 3 of additional provision two thereof, as well as to section 45, paragraph I. B.) 10. of Royal Legislative Decree 1/1993 of 24 September approving the Restated Text of the Asset Transfer and Documentary Stamp Tax Act.

Notice of the choice of such tax regime shall be given to the Tax Authority within three months of the registration of the deed of merger, upon the terms established by the relevant regulations.

## 16. CONDITIONS PRECEDENT

The effectiveness of the Merger is subject to the following conditions precedent:

(i) The authorisation of the Ministry of Economy and Competitiveness for the absorption of Banesto by Santander, pursuant to the provisions of section 45.c) of the Banking Act of 31 December 1946.

(ii) The acquisition of the other authorisations that must be obtained from the Bank of Spain, the National Securities Market Commission, or any other governmental or supervisory body by reason of the business activities of Banesto or subsidiaries thereof.

## 17. COMPLIANCE WITH THE PUBLICATION AND INFORMATION OBLIGATIONS OF THE BOARD OF DIRECTORS OF SANTANDER AND BANESTO

In compliance with the provisions of section 32 of the Structural Modifications Act, these Draft Terms of Merger shall be included in the websites of Santander and Banesto. The fact of the inclusion of the Draft Terms in the websites shall also be published in the Official Gazette of the Mercantile Register, with a statement of the website of Santander (www.santander.com) and Banesto (www.banesto.es/webcorporativa), as well as the date of inclusion thereof.

The inclusion in the websites of Santander and Banesto and the publication of this fact in the Official Gazette of the Mercantile Register shall occur at least one month in advance of the date established for the holding of the General Shareholders' Meetings to approve the Merger. The inclusion in the websites shall continue, at a minimum, for the time required by section 32 of the Structural Modifications Act.

In turn, it is stated for the record that, pursuant to the provisions of section 33 of the Structural Modifications Act, the Boards of Directors of Santander and Banesto shall each prepare a report explaining and providing a detailed rationale regarding the legal and financial aspects of the Draft Terms of Merger, with special reference to the share exchange ratio, to any particular valuation difficulties that may exist, and to the impact of the Merger on shareholders of the merging companies, and the creditors and employees thereof.

These reports, together with the other documents referred to in section 39 of the Structural Modifications Act, shall be included in the websites of Santander and Banesto prior to publication of the notice of the General Shareholders' Meetings to decide on the Merger, with the ability to download and print them.

Finally, pursuant to the provisions of section 30.3 of the Structural Modifications Act, the Draft Terms of Merger shall be subject to the approval of the General Shareholders' Meetings of Santander and Banesto within six months of the date of these Draft Terms, with the specific provisions that the General Meetings to which the Merger is submitted be the respective ordinary General Meetings and that they be held during the month of March 2013.

* * *

Pursuant to the provisions of section 30 of the Structural Modifications Act, the directors of Santander and Banesto, whose names appear below, sign and approve two specimens, identical in text and form, of these Draft Terms of Merger, which have been approved by the Boards of Directors of Santander and Banesto at their respective meetings held on 9 January 2013.

## BOARD OF DIRECTORS OF SANTANDER

Emilio Botín-Sanz de Sautuola y García de los Ríos
**Chairman**

Alfredo Sáenz Abad
**Second Vice-Chairman and Chief Executive Officer**

Fernando de Asúa Álvarez
**First Vice-Chairman**

Matías Rodríguez Inciarte
**Third Vice-Chairman**

Manuel Soto Serrano
**Fourth Vice-Chairman**

Ana Patricia Botín-Sanz de Sautuola y O'Shea
**Director**

Francisco Javier Botín-Sanz de Sautuola y O'Shea
**Director**

Lord Burns (Terence)
**Director**

Vittorio Corbo Lioi
**Director**

Guillermo de la Dehesa Romero
**Director**

Rodrigo Echenique Gordillo
**Director**

Esther Giménez-Salinas i Colomer
**Director**

| | |
|---|---|
| Ángel Jado Becerro de Bengoa<br>**Director** | Abel Matutes Juan<br>**Director** |
| Juan Rodríguez Inciarte<br>**Director** | Isabel Tocino Biscarolasaga<br>**Director** |

Pursuant to the provisions of section 30 of the Structural Modifications Act, it is expressly stated for the record that the directors Ana Patricia Botín-Sanz de Sautuola y O'Shea, Francisco Javier Botín-Sanz de Sautuola y O'Shea, Lord Burns, Vittorio Corbo Lioi, Esther Giménez-Salinas i Colomer and Abel Matutes Juan were not physically present at the meeting of the Board of Directors of Santander at which these Draft Terms of Merger were approved, and were represented by Emilio Botín-Sanz de Sautuola y García de los Ríos, who, on their behalf and in accordance with the instructions thereof, voted in favour of the approval of these Draft Terms of Merger.

For this reason, the signatures thereof are missing from this document.

# BOARD OF DIRECTORS OF BANESTO

Antonio Basagoiti García-Tuñón
**Chairman**

Francisco Javier San Félix García
**Chief Executive Officer**

José Luis López Combarros
**Vice-Chairman**

Alfonso Líbano Daurella
**Director**

Juan Antonio Sagardoy Bengoechea
**Director**

Matías Rodríguez Inciarte
**Director**

José Corral Lope
**Director**

José María Fuster Van Bendegem
**Director**

Juan Delibes Liniers
**Director**

Juan Guitard Marín
**Director**

Carlos Sabanza Teruel
**Director**

Luis Alberto Salazar-Simpson Bos
**Director**

Rosa María García García
**Director**

José Antonio García Cantera
**Director**

Pursuant to section 30 of the Structural Modifications Act, it is hereby expressly stated for the record that, following the best corporate governance practices, all of the proprietary directors (*consejeros dominicales*) of Banesto appointed at the request of Santander, i.e. Antonio Basagoiti García-Tuñón, Matías Rodríguez Inciarte, José María Fuster Van Bendegem, Juan Guitard Marín, and José Antonio García Cantera, have not participated in the deliberations and have abstained from taking part in the voting by the Board of Directors of Banesto regarding these Draft Terms of Merger due to the belief that they might be affected by a potential conflict of interest, without prejudice to which they have stated their positive assessment of the transaction. Without prejudice to the above, all the proprietary directors, with the exception of Matías Rodríguez Inciarte attended the meeting. Luis Alberto Salazar-Simpson Bos, an external director not classified as independent, has also abstained from deliberation and voting in view of the fact that he is also a director of Banco Banif, S.A., a bank affiliated to Santander, but has also stated his positive assessment of the Merger.

It is also stated for the record that the executive directors of Banesto, Francisco Javier San Félix García and Juan Delibes Liniers, did not participate in the deliberations and abstained from taking part in the voting of the Board of Directors of Banesto regarding these Draft Terms of Merger, as it was also believed that they might be affected by a potential conflict of interest. However, such directors have also stated their positive assessment of the transaction.

Therefore, for the reasons referred to above, the signatures of Antonio Basagoiti García-Tuñón, Matías Rodríguez Inciarte, José María Fuster Van Bendegem, Juan Guitard Marín, José Antonio García Cantera, Luis Alberto Salazar-Simpson Bos, Francisco Javier San Félix García, and Juan Delibes Liniers do not appear in these Draft Terms of Merger.

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