

MATERIAL FACT

Banco Santander, S.A. ("**Banco Santander**") informs of the acquisition of 100% of the share capital of Banco Popular Español, S.A. ("**Banco Popular**") as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board and executed by the FROB, in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014, the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, and Law 11/2015, of 18 June, for the recovery and resolution of credit institutions and investment firms.

As part of the execution of the resolution scheme, (i) all the shares of Banco Popular outstanding at the closing of market yesterday and all the shares resulting from the conversion of the regulatory capital instruments Additional Tier 1 issued by Banco Popular have been totally cancelled and (ii) all the regulatory capital instruments Tier 2 issued by Banco Popular have been converted into newly issued shares of Banco Popular, all of which have been acquired for a price of one euro (€1).

Moreover, as part of the transaction, Banco Santander has the intention to carry out a share capital increase of approximately EUR 7,000 million which will cover the capital and the provisions required to reinforce the balance sheet of Banco Popular. The current shareholders of Banco Santander will have preferential subscription rights in the share capital increase. Banco Santander holds underwriting commitments for the total of such amount.

After these transactions, it is expected that the impact on the CET1 capital of the Banco Santander Group will be neutral.

Boadilla del Monte (Madrid), 7 June 2017

IMPORTANT INFORMATION

This announcement is not a prospectus but an advertisement and investors should not subscribe for any new shares of Banco Santander, S.A. (“Banco Santander” or the “Bank”) or purchase any pre-emptive subscription rights for new shares of the Bank referred to in this announcement except on the basis of the information contained in the prospectus of the rights issue to be registered by Banco Santander with the *Comisión Nacional del Mercado de Valores* (“CNMV”). Once registered with the CNMV, the prospectus shall be publicly available at the Bank’s registered address and, in electronic format, in the web pages of the Bank (www.santander.com) and the CNMV (www.cnmv.es). The Bank expects to request the CNMV to passport the prospectus of the rights issue, once approved and registered, for the purposes of it being effective in the United Kingdom, Italy, Portugal and Poland.

This announcement does not constitute an offer to sell, or a solicitation of an offer to subscribe for, the pre-emptive subscription rights or the new shares being issued in connection with the share capital increase, in any jurisdiction in which such offer or solicitation is unlawful or, as the case may be, until the applicable requirements for those purposes have been met. The distribution of this announcement and/or the prospectus and/or the transfer of pre-emptive subscription rights and/or new shares into jurisdictions other than Spain, the United Kingdom, Italy, Portugal and Poland may be restricted by law. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The securities referred to herein may not be and will not be offered or sold in the United States unless in a transaction registered under the U.S. Securities Act of 1933 (the “Securities Act”) or in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. If any public offering of securities is made in the United States it will be made by means of a prospectus that may at the time of any such offering be obtained from Banco Santander and that will contain or incorporate by reference detailed information about Banco Santander and its management, as well as financial statements.