

**REPORT PREPARED BY THE EXECUTIVE COMMITTEE OF BANCO SANTANDER, S.A. ON THE ISSUE OF ONE OR MORE SERIES OF CONTINGENTLY CONVERTIBLE PREFERRED SECURITIES INTO SHARES FOR AN AMOUNT UP TO TWO THOUSAND MILLION EUROS (EUR 2,000,000,000) AND/OR ITS EQUIVALENT IN U.S. DOLLARS TO BE APPROVED PURSUANT TO THE AUTHORISATION GRANTED BY THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING HELD ON 12 APRIL 2019 UNDER ITEM SEVEN OF THE AGENDA**

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This report is prepared in connection with the resolution to issue one or more series of preferred securities contingently convertible into common shares of Banco Santander, S.A. ("**Banco Santander**", the "**Bank**", or the "**Company**") for up to two thousand million euro (EUR 2,000,000,000) or its equivalent in U.S. dollars (the "**CCPS**") that will be submitted to and, if appropriate, approved by the Bank's Executive Committee on the date of this report in reliance on the authorisation provided by the shareholders at the general shareholders' meeting held on 12 April 2019, under item Seven of the agenda and the subsequent delegation of powers on the Executive Committee approved by the Board of Directors on the same date. This report is issued by the Executive Committee in compliance with articles 249 bis.f) of the Companies Act (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010 of 2 July (the "**Companies Act**"), and 16.4 in relation with 3.2.t) of the Regulations of the Board of Banco Santander.

This report is issued in compliance with the requirements established in articles 286 and 414.2 (in connection with the basis and methods for the conversion of debentures and the capital increase required for that purpose), 417.2 and 511 (as regards the exclusion of pre-emptive rights) and 510 (in connection with the reasonableness of the financial terms of the issue and the suitability of both the conversion ratio and the formulas for its adjustment) of the Companies Act and resolution Seven adopted by the shareholders at the general shareholders' meeting of 12 April 2019.

The following are the two reports issued pursuant to the requirements of the cited articles of the Companies Act.

Pursuant to the provisions of article 511 of the Companies Act and resolution Seven adopted at the general shareholders' meeting of 12 April 2019, this report and the report that the independent expert appointed for that purpose by the Commercial Registry of Cantabria will prepare concerning the basis and methods for conversion, the fairness of the information included in this report and the suitability of both the conversion ratio and the formulas for its adjustment to offset a potential economic dilution for the shareholders, will be made available to the shareholders, and reported to the shareholders at the first general shareholders' meeting to be held following the resolution approving the issue of the CCPS. Likewise, in compliance with Recommendation 5 of the Code of Good Governance of Listed Companies approved by the Council of the Spanish Stock Market Commission ("**CNMV**") in February 2015 and revised in June 2020, the Bank will publish this report, together with the aforementioned independent expert's report, on its corporate website once the conditions of the issue of the CCPS have been established.

## 1. RATIONALE FOR THE ISSUE OF CCPS

In accordance with the framework of solvency and own funds defined by Regulation (EU) 575/2013 of 26 June (“**CRR**”) and Directive 2013/36/EU of 26 June (as transposed into Spanish national law<sup>1</sup>, “**CRD**”), which implement the regulatory framework known as “Basel III” in Europe, Banco Santander, as a Spanish credit institution and parent company of a consolidable group of credit institutions, is subject to —on an individual and consolidated basis— a minimum capital requirement (known as “Pillar 1”<sup>2</sup>), a specific capital requirement (known as “Pillar 2R”) and an additional requirement denominated “combined buffers requirement” (which must be met with Common Equity Tier 1 (“**CET 1**”), in addition to the CET 1 intended to comply with Pillar 1 and Pillar 2<sup>3</sup>). The Pillar 2 requirement (both Pillar 2R and Pillar 2G) is set by the European Central Bank ad hoc for each institution on an annual basis taking into account the outcome of the assessment and supervisory-review process (“**SREP**”). In the case of Banco Santander, as a result of the SREP, the European Central Bank required the Bank to maintain from 1 January 2020 (the “**2019 SREP Decision**”): (i) a CET 1 ratio of at least 9.7%<sup>4</sup> on a consolidated basis and at least 8.6% on an individual basis, and (ii) total capital ratio of at least 13.2% on a consolidated basis and at least 12.1% on an individual basis. On 24 November 2020 the Bank received the European Central Bank’s SREP communication for the 2020 cycle in which the supervisor has chosen to follow a pragmatic approach for this 2020 SREP cycle focusing on the ability of supervised entities to meet the challenges of the Covid-19 crisis and its impact on their current and future risk profiles. This communication is not a supervisory measure and does not amend or repeal the 2019 SREP Decision and therefore confirms the validity of the requirements included therein. Therefore, as of the date of this report, the CET1 requirement for Banco Santander at the consolidated level is at least 8.85%<sup>5</sup>.

On 31 March 2021, the Bank’s total capital ratio was 16.16% on a consolidated basis, with the Bank’s CET 1 capital ratio at 12.30% on a consolidated basis. These ratios comfortably exceed the regulatory capital requirements currently applicable to Banco Santander.

Notwithstanding the fact that —as indicated— the Bank currently complies comfortably with all capital requirements and has sufficient issuances of specific instruments to meet its capital requirements efficiently, it is proposed to issue new securities that qualify as AT1 for strengthening its capital ratios and maintaining adequate management margins above the capital requirements applicable to the Bank and to enable Banco Santander to at all times strengthen and preserve sound capital position of

<sup>1</sup> Transposed into Spanish law through Law 10/2014, of 26 June, on regulation, supervision and solvency of credit entities (“**LOSS**”), Royal Decree 84/2015, of 13 February, which implements the Law 10/2014, and Bank of Spain Circular 2/2014 and Bank of Spain Circular 2/2016.

<sup>2</sup> The Pillar 1 capital requirements are the following: 8% of total own funds (which is the aggregate of tier 1 and tier 2), 6% of tier 1 (which is the aggregate of CET 1 and AT1) and 4.5% of common equity tier 1 ratio (CET 1); all those percentages measured on the risk-weighted assets (“**RWA**”).

<sup>3</sup> Pillar 2 of capital is formed by a requirement (or Pillar 2R, for the “r” of requirement) that can be partially satisfied with AT1 and tier 2 instruments and in the stacking order it is placed above the requirement of Pillar 1 but before the combined buffers requirement; and a guidance or non-binding recommendation (or Pillar 2G, for the “g” of guidance).

Pillar 2G must be satisfied entirely with CET 1 and is placed in *stacking order* above the combined buffers requirement. Its main characteristic is that it is a *guidance* and not a requirement, and therefore its eventual breaches do not trigger the obligation to calculate the “maximum distributable amount” and the limitations and restrictions arising from it.

<sup>4</sup> This requirement includes, on the date of the requirement: the minimum Pillar 1 requirement (4.5%), the Pillar 2R requirement (1.5%), the capital conservation buffer (2.5%), the requirement derived from its consideration as a Global Systemic Financial Institution (1%) and the requirement regarding the counter-cyclical capital buffer (0.2% of CET1, stemming from the activities of the group in the United Kingdom and in the Northern Countries).

<sup>5</sup> This requirement includes: the Pillar 1 requirement (4.5%), the Pillar 2R requirement (which is now 0.84% due to the capital relaxation measures approved by the European Central Bank in March 2020 and which allow institutions to partially use additional Tier 1 and Tier 2 capital instruments for this purpose), the capital conservation buffer (2.5%), the requirement derived from the consideration as global systemic financial institution (1%) and the countercyclical capital buffer requirement (0.01% of CET 1).

the Bank and its group in the most efficient way, seeking the appropriate balance between the cost that one or other type of instruments may imply for the institution and the computability of those instruments for the purposes of various regulatory requirements and the expectations of investors and the market.

In addition, the issue of the CCPS will enable the proactive and orderly management of market expectations as well as the maturities and early-redemption options of the outstanding issuances of the Bank's eligible liabilities, guaranteeing at all times efficient compliance with the solvency requirements and taking advantage, eventually, of the favorable market circumstances existing at each moment (notwithstanding the fact that the relevant junctures for the purposes of determining the suitability of the early-redemption of each issue are those existing on the date of its redemption or early maturity), which is in Banco Santander's best interest.

Likewise, the following is of note:

- (i) Similar to other issues of AT1 instrument in recent years, the proposed securities contribute to the substitution for previous issues of preferred securities that are affected by the progressive disqualification set out in article 486 of CRR. Article 486 establishes that the elements and instruments that qualify as additional tier 1 capital that were issued before 31 December 2011 and no longer meet the qualification requirements set out in articles 51 and 52 of CRR will gradually lose their corresponding qualification at 10% per year (for a period from 1 January 2014 and 31 December 2021). This gradual disqualification makes substitution for new instruments that meet the requirements desirable.
- (ii) Furthermore, this type of issues are useful for strengthening the leverage ratio. In accordance with the provisions of article 429 of CRR, the leverage ratio is calculated as the tier 1 capital divided by the total exposure of the entity, for which the AT1 instruments issues strengthen the leverage ratio by increasing its numerator.

In addition, the additional buffer in the leverage ratio for G-SIIs (among which is Banco Santander) is scheduled to come into effect as of 1 January 2023. Therefore, this type of issues will contribute to the fulfilment of these requirements once they are in force.

- (iii) Moreover, since the capital instruments that qualify under CRR are eligible for the purposes of the TLAC (Total Loss Absorbing Capacity)<sup>6</sup> (and the MREL —*Minimum Required Eligible Liabilities*—), the issue of the CCPS that are the subject of this report places the Bank in a favourable position for the purposes of a phase-in implementation of the TLAC/MREL.
- (iv) Finally, and in relation to the package of reforms aimed at strengthening the regulations applicable to European Banks approved in 2019, the possibility that part of the Pillar 2 requirement could be satisfied with AT1 instruments was introduced (in particular, 18.75%<sup>7</sup> of the requirement, although the competent authority reserves the right to adjust it downward or upward). Therefore, the issue of this type of securities could also be used to comply with this requirement.

The Executive Committee further believes that, again, as happened with the contingently convertible preferred securities issues in the past by the Bank, the best way to capitalise on this interest, or "market window", is through an accelerated bookbuilding process, which allows for: (a) raising funds

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<sup>6</sup> "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution. Total Loss-absorbing Capacity (TLAC) Term Sheet". Financial Stability Board (FSB), 9 November 2015.

<sup>7</sup> See new article 104a.4 introduced by CRD (pending partial transposition). 3/4 of the requirement must be met with Tier 1 elements and, out of those Tier 1 elements, 3/4 must be CET 1 ( $0.75 * 0.25 = 0.1875$ ).

within a very short period of time; (b) raising such funds efficiently on the financial terms and conditions prevailing in the market, reducing the costs and risks inherent in the transaction by reducing the periods during which the placement of the securities is exposed to market volatility, and finally (c) to place the offered CCPS on market terms that are more advantageous for the Company than the terms that might be expected to be obtained if the issue were to be carried out recognising shareholders' pre-emptive rights, and with less uncertainty concerning the outcome and risk of the transaction.

In order to be able to carry out a bookbuilding process in connection with an issue of preferred securities contingently convertible into newly-issued shares such as the one proposed by the Bank, it is essential to exclude shareholders' pre-emptive rights in order to seek expressions of interest in subscribing for the securities from professional investors specialising in this type of instrument, who are those who are in a position to offer the Bank the most efficient financial terms and conditions for this product; accordingly, this exclusion is inherent in the type of placement selected. Section 4 below provides a detailed rationale, including these and other reasons for requiring the exclusion of such rights from the standpoint of the corporate interest.

The exclusion of the pre-emptive rights makes necessary the drafting of this report pursuant to articles 417.2 and 511 of the Companies Act. Moreover, in accordance with Article 510 of the Companies Act, the appointment of an independent expert to issue the corresponding report has been requested to the Commercial Registry.

## **2. LEGAL FRAMEWORK GOVERNING THE CCPS**

CCPS that are intended to be issued are considered hybrid own-funds instruments of a perpetual nature and are eligible as additional tier 1 capital pursuant to articles 51 through 55 of CRR. In addition, CCPS are governed, for tax purposes, by additional provision one of the LOSS.

The legal framework governing these instruments requires that a mechanism is made available for the participation of the holders thereof for absorbing the institution's current or future losses, which includes conversion of preferred securities into instruments eligible as common tier 1 capital (e.g. common shares). That mechanism is, in fact, the mechanism proposed for the issue of the CCPS. Their convertible nature, while contingent, does not detract from the perpetual nature of the issue of the CCPS, which will only be converted into shares upon the occurrence of any of the "trigger events" required by law —relating to situations in which the Bank's solvency is at risk— and which could be redeemed early if the applicable legal requirements are met.

## **3. DESCRIPTION OF THE PLACEMENT METHOD**

The Bank will carry out an accelerated bookbuilding process in order to obtain indications of investors' interest in the issue.

To such end, the Company will retain the services of reputable institutions (known as joint lead managers or underwriters of the process) to carry out the bookbuilding process among professional clients interested in subscribing the issue. The bookbuilding process is not expected to take more than 48 hours.

Once this process ends, the final terms and conditions of the issue will be set in accordance with the resolution approving the issue, if any, that is foreseen to be approved by the Executive Committee on the date of this report, in reliance on the authorisation granted by the shareholders at the general shareholders' meeting held on 12 April 2019, under item Seven of the agenda and the subsequent delegation of powers approved by the Board of Directors on the same date.

Specifically, after the passing of resolution on the issue by the Executive Committee, the person or persons to whom it delegates such power will, on the basis of the bookbuilding process, set the total amount of the issue, the number of series comprising the issue, the type or types of remuneration, the period from which the early-redemption of each series may be exercised by the Bank, if appropriate, as well as the date for subscription and payment of the CCPS.

#### **4. THE EXECUTIVE COMMITTEE'S REPORT FOR THE PURPOSES OF ARTICLES 417, 510 AND 511 OF THE COMPANIES ACT**

The issue of the CCPS that will be submitted to the Executive Committee and, if appropriate, approved on the date of this report, acting pursuant to the delegation of powers that were previously delegated to the Board of Directors at the general shareholders' meeting and subsequently delegated by it in favour of the Executive Committee, requires that the pre-emptive right that shareholders would otherwise have in connection with the issue of convertible obligations be excluded in full.

Accordingly, and pursuant to articles 417, 510 and 511 of the Companies Act, a report must be prepared that provides a detailed rationale for the proposed exclusion and the suitability of both the conversion ratio and the formulas for its adjustment, which must be made available to the shareholders. Notice of the report must be given to the shareholders at the first general shareholders' meeting to be held following that in which the resolution approving the issue was passed. Likewise, as indicated, in compliance with Recommendation 5 of the Code of Good Governance of Listed Companies approved by the Council of CNMV in February 2015 and revised in June 2020, the Bank will publish the report on its corporate website once the conditions of the issue of CCPS have been established.

The Executive Committee believes that the exclusion of pre-emptive rights is fully justified from the standpoint of the corporate interest and that it is necessary to undertake the proposed transaction. And, in order to evidence that conclusion in detail, the following is noted:

*One.- Accelerated bookbuilding. Capitalising on "market windows", lesser exposure to market volatility and cost savings.*

The purpose of the proposed issue is to raise own funds taking advantage of the favourable financing conditions in the market and the interest of certain types of investors in instruments such as the one the Bank intends to issue. The exclusion of pre-emptive rights makes it possible to carry out the issue through the bookbuilding process, which is the one best suited to the requirements of international capital markets, reducing the execution time of the transaction to the minimum possible, which makes it possible to take advantage of possible "market windows" or suitable opportunities for financial transactions, reduces the cost of raising funds, makes it possible to obtain the financial conditions prevailing in the market which are more favourable for the issue than those that would be obtained if it were made with pre-emptive rights and, in general, increases the likelihood that the transaction will be successful.

Without the approval of the exclusion of pre-emptive rights, it would be impossible to structure the issue as designed, which would prevent the implementation of the bookbuilding process at the time identified as especially appropriate for such purpose.

Accordingly, the exclusion of pre-emptive rights will allow to target the issue towards investors classified as professional clients, from whom it is proposed to seek statements of interest in subscribing for the CCPS through the bookbuilding process to be conducted in connection with the issue.

Such process will allow the Company to:

- take advantage of the “market window” at the precise moment in which it becomes available , removing the uncertainty as to whether such window would remain open for a hypothetical preferred subscription period of at least 15 days;
- facilitate the placement work of the joint lead managers or underwriters as to the nature of professional clients, the typology and geographical location of the potential investors whom they might contact;
- take advantage of the opportunity to carry out a transaction that will allow it to improve the structure and quality of its financial liabilities and set the amount of the issue, the conversion price, and the remuneration to be paid at the end of the respective bookbuilding process or in the immediately previous days, instead of having to do so prior to the commencement of the preferred subscription period, as would be necessary if pre-emptive rights were not excluded. This should allow the Bank to optimise the conversion price and the cost of the remuneration as compared to the one that would result if it had to set it in advance (as would be required in a transaction with pre-emptive rights), by setting it on the basis of market response and the listing price of the shares at the time of the accelerated bookbuilding; and
- reduce the impact of the issue on the listing price of the shares of the Company by enabling it to obtain firm subscription commitments from “professional clients” within a very short period of time, compared to the longer period of time that would be required for the issue from the notice to the market of the Bank’s intention to issue if pre-emptive rights would have been maintained.

Two.- Complexity of the product and commercial restrictions under the public offer framework.

The complex nature of this type of instrument, required under CRR for its qualification as additional tier 1 capital, makes it desirable to allocate the entire issue for its disbursement among professional clients and eligible counterparties<sup>8</sup> given their higher degree of expertise and financial knowledge. In this sense, both the additional provision four of the Law on the Securities Markets (*Ley del Mercado de Valores*) and the additional provision one of the LOSS (in this second case, for the purposes of benefiting from the special tax regime) require, in the event of the commercialisation of this type of securities, a tranche exclusively targeted to professional clients of at least half the issue. This is consistent with the Joint Statement of the EBA and ESMA on the treatment of retail holdings of debt financial instruments subject to the Bank Recovery and Resolution Directive of 30 May 2018 on the subject of debt instruments subject to bank resolution regulations in the hands of retail investors, which recommend that financial institutions avoid the commercialisation of these products to retail clients, —category which, in the case of the Bank, many of its shareholders fall under— and which reflect the restrictions deriving from BRRD II<sup>9</sup>. In the same vein, the Circular of the CNMV 1/2018, of 12 March, on warnings relating to financial instruments, establishes that the instruments qualifying as additional tier 1 capital (as it is the case of CCPS) are products that, due to their particular complexity, are not suitable for retail clients.

<sup>8</sup> As defined in point (10) of Article 4 (1) and in Article 30, respectively, of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (“MiFID II”), which have in turn been transposed into Spanish law by articles 205 and 207, respectively, of the consolidated text of the Spanish Law on the Securities Market, approved by Royal Legislative Decree 4/2015, of 23 October (the “Law on the Securities Market”).

<sup>9</sup> The new article 44a of BRRD (transposed in Spain in the Fourth Additional Provision of the Law on the Securities Market) has also introduced, for issuances executed from 28 December 2020 onwards, trading restrictions among retail investors of MREL eligible liabilities.

These requirements are irreconcilable with the proposed issuance of CCPS with pre-emptive rights in favour of the Bank's shareholders.

Furthermore, the full placement of the CCPS among investors classified "professional clients" and "eligible counterparties" allows access to international markets, on which the large volume of funds traded, together with Banco Santander's quality and prestige, make it possible to —as it has been proved in the last issues of this type of instruments— secure a higher volume of funds on more favourable terms. Given the foregoing, it is necessary to exclude the pre-emptive rights of the current shareholders of the Bank in respect of the CCPS.

Three.- *Strengthening of capital and efficiency in its management.*

The proposed issue would allow the Bank to raise additional resources that qualify as tier 1 capital at a particularly favourable time in the market, increasing Banco Santander's capital ratios in accordance with current and future applicable regulations, strengthening its leverage ratio and, furthermore, placing the group in a favourable position for compliance with the "TLAC/MREL" requirements, as well as enabling it to manage the maturity of its liabilities and redemption options with a certain margin. See section 1 for further details on the prudential requirements applicable to the group and the need for efficient management of these requirements.

Assuming that the CCPS issue is subscribed in full, the effect on the Bank's main solvency indicators would be as follows:

<b>Data in percentages (rounded by approaching)</b>	<b>30.03.2021</b>	<b>Pro forma after this issue</b>
<i>Common Equity Tier 1</i>	12.30%	12.30%
<i>Additional Tier 1</i>	1.60%	1.96%
<i>Tier 1</i>	13.90%	14.26%
<i>Tier 2</i>	2.26%	2.26%
<i>Own funds</i>	16.16%	16.51%

Four.- *Suitability of the issue for the intended purpose.*

An issue of contingently convertible preferred securities is the suitable instrument for simultaneously meeting all the goals identified above. As indicated, the CCPS would qualify as additional tier 1 capital and, consequently, they would be also eligible for TLAC /MREL.

Compared to an issue of shares, the issue of CCPS is more appropriate for the following reasons:

- (i) On the one hand, the issue of AT1 instruments optimises the Santander Group's cost of capital for raising tier 1 capital by issuing an instrument (CCPS) with an implicit cost lower than that associated with the common equity tier 1 ratio (shares).
- (ii) On the other hand, CCPS are flexible instruments that do not entail, in the most common scenario, any dilution for the shareholders since they will only be converted into shares under exceptional circumstances linked to a solvency impairment affecting the Bank. In particular, the "trigger event" of the conversion will only occur should the Bank or the Bank's consolidable group have a common equity tier 1 ratio lower than 5.125%, as calculated in

accordance with the CRR and the own-funds regulation applicable to the Bank from time to time.

Additionally, even in the event that the CCPS were to be converted into shares at any time, that circumstance nevertheless maximises the issue price of such shares since, according to the terms of the CCPS, the conversion must occur at a price not lower than the market price, therefore avoiding the economic dilution of Santander's shareholders even in a situation of crisis (which, as mentioned, would represent the only scenario in which the CCPS would be converted into shares).

Five.- Proportionality of the exclusion given that the dilutive effects are very limited or non-existent.

Finally, the Executive Committee believes that the exclusion of pre-emptive rights complies with the necessary due proportionality between the advantages for the Bank and the potential disadvantages that the shareholders could potentially suffer for reasons of political or economic dilution:

- Firstly, the CCPS are "contingently" convertible securities, rather than "necessarily" convertible securities and, therefore, in the most common scenario, they will not result in either an economic or political dilution of the Bank's shareholders since conversion into shares will not take place. In this regard, conversion is not the natural aim of the CCPS<sup>10</sup> they would only be converted in specific circumstances in which the Santander Group's solvency is significantly impaired (the CET1 ratio calculated in accordance with CRR and other applicable regulations is below 5.125%).
- Secondly, a variable conversion ratio is established in the event of automatic conversion into shares based on the Bank's share price at that time<sup>11</sup>, as a result of which, as mentioned, the shareholders will not experience any economic dilution, considering that the shares would be issued at their market value at the time of conversion (or, if the minimum conversion rate applies, at a price higher than their market value at that time so that the economic dilution of the shareholders in that scenario would even be negative), and therefore the proposed conversion ratio guarantees that the conversion price will in no case be lower than the fair value of the Company. All of the above, coupled with the fact that the interest rate applicable to the remuneration of the CCPS will be calculated in accordance with market conditions, determines that the notional value of the pre-emptive rights for which exclusion is proposed should be zero or negative.
- Thirdly, the established conversion ratio contains a minimum conversion price, making it possible to limit the maximum political dilution that the Bank's shareholders might suffer in the event of a conversion event. That minimum conversion price will be adjusted, if necessary, by applying the anti-dilution clauses that are customary in the issue of

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<sup>10</sup> In addition, it can be assumed that the investment purpose of a CCPS subscriber is not to become a shareholder of the issuer of these securities. The purpose of the investment is similar to that of a fixed-yield investor who expects to receive interest, accepting an additional specific level of subordination (and, therefore, of risk) in exchange for the expectation of higher remuneration (and, in any case, although discretionary, it is both predetermined and limited, as opposed to an investment in equity, for which dividends are not limited to a percentage of the initial investment).

<sup>11</sup> The basis for the market conversion are established based on the market price of the Bank's shares at the time of conversion. Thus, it is established that the market value of the Bank's shares for the purposes of the conversion shall be set by the Executive Committee in accordance with the market price of one day or the average of several days' trading of Banco Santander's shares, and converted into U.S. dollars, where applicable.



convertible securities of Banco Santander and traditionally accepted by the market, and will in no event be lower than the nominal value of the shares.

Considering the foregoing, the Executive Committee believes that the exclusion of the pre-emptive rights of the shareholders in the issue of the contingently convertible preferred securities to which this report refers is amply justified by reasons of corporate interest and the conversion ratio and its adjustment formulas are suitable for the proposed purpose.

## **5. THE EXECUTIVE COMMITTEE'S REPORT FOR THE PURPOSES OF ARTICLES 414, 510 AND 511 OF THE COMPANIES ACT**

If approved by the Executive Committee on the date of this report, in reliance on the authorisation granted by the shareholders at the ordinary general shareholders' meeting held on 12 April 2019 under item Seven of the agenda and the subsequent delegation of powers approved by the Board of Directors on the same date, the Bank will issue securities contingently convertible into newly-issued shares of Banco Santander.

In accordance therewith, and in view of the provisions of articles 414.2, 510 and 511.3 of the Companies Act, the Executive Committee must prepare a report to explain and justify the reasonableness of the basis and methods for the conversion of the CCPS; the report must be made available to the shareholders and reported to the shareholders at the first general shareholders meeting to be held following the resolution approving the issue. Additionally, as previously indicated, the Bank must publish the report on its corporate website once the terms of the issue of CCPS have been established.

The following is an explanation and analysis of the indicated basis and method for the conversion, along with the most important data on the issue, which will be indicated in the resolution approving the issue or, if appropriate, by the person or persons to whom the Executive Committee delegates the respective powers. References to resolutions or decisions of the Executive Committee therefore include the actions and decisions of its representatives, if any.

### One. Data of the issuer

The issuer is Banco Santander, S.A., with registered office in Santander, Spain, at Paseo de Pereda, 9 to 12, and holder of Tax Identification Number A-39000013. Its current share capital totals EUR 8,670,320,651 represented by 17,340,641,302 common shares, each with a nominal value of EUR 0,50, all fully paid in and carrying the same rights.

The Banks corporate purpose is stated in Article 2 of its by-laws:

"1. *The Company's corporate purpose is the following:*

*a) The performance of activities and transactions, and the provision of services of any kind, that are typical of the banking business in general that are permitted under current law.*

*b) The acquisition, possession, enjoyment and disposal of all types of securities.*

2 *The activities making up the corporate purpose may be performed totally or partially in an indirect manner, in any of the manners permitted by law and, in particular, through the ownership of shares or the holding of stakes in companies which purpose is identical or similar, incidental or supplemental to such activities".*

### Two. Amount of the issue

The maximum amount of the issue will be TWO THOUSAND MILLION EUROS (EUR 2,000,000,000) or, if applicable, its equivalent in U.S. dollars, with a provision for incomplete subscription.

The amount of the maximum amount authorised used pursuant to resolution Seven adopted at the Bank's ordinary general shareholders' meeting held on 12 April 2019 will depend on the final amount issued and subscribed in this issue. For illustration purposes only, if the maximum amount were issued and if it were subscribed in full<sup>12</sup>, (i) the amount of the maximum amount authorised used pursuant to resolution Seven adopted at the Bank's ordinary general shareholders meeting held on 12 April 2019 would be THREE THOUSAND FIVE HUNDRED MILLION EUROS (EUR 3,500,000,000) and (ii) SIX THOUSAND FIVE HUNDRED MILLION EUROS (EUR 6,500,000,000) would remain available for drawdown.

### Three. Nature

The CCPS are securities that are perpetual in nature (absent conversion or early-redemption, in the latter case, upon previously obtaining the necessary authorisations pursuant to articles 77 and 78 of CRR and complementary regulations) and contingently convertible, that are eligible as additional tier 1 capital.

Preferred securities are governed (i) by articles 51 through 55 of CRR, and (ii), as to its tax regime, by the additional provision one of LOSS.

### Four. Nominal value, issue price and form of representation

The issue price of the CCPS will be at par, i.e., at 100% of their nominal value. The nominal value of each CCPS will be, at least, one hundred thousand euros (EUR 100,000) or its equivalent in U.S. dollars, which is an amount higher than the nominal value of the shares of the Company (EUR 0.50).

Accordingly, if the currency used for the issue is the euro, the maximum number of CCPS issued will be twenty thousand (20,000), with an express provision established for any event involving a less than full subscription. The maximum number of CCPS may be higher if the issue as a whole (or any of the series) uses U.S. dollars as its currency.

The CCPS may belong to one or more series, having all the CCPS that belong to the same series the same terms and conditions, thereby conferring the same rights upon their holders.

The CCPS will be initially represented by one or more global notes.

### Five. Remuneration rate and events of cancellation of the payment of remuneration

The CCPS will have an annual, non-cumulative remuneration (the "**Remuneration**"):

(a.i) in the event that the issue is carried out in euros or for, if applicable, the series that is/are carried out in that currency, from the Closing Date (included) and until the first date on which the remuneration is reset (the "**First Reset Date**") (excluded) which shall consist of a percentage applied to the nominal value of the CCPS that may not exceed (a) 4.25% if any of the attorneys appointed under section (U) of this resolution finally sets the First Reset Date six years or six years and six months from the Closing Date, (b) 4.375% if any of the attorneys appointed under section (U) of this resolution finally sets the First Reset Date seven years or seven years and six months from the Closing Date, or (c) 4.625% if any of the attorneys appointed under section (U) of this resolution finally sets the First Reset Date ten years or ten years and six months from the Closing Date;

(a.ii) in the event that the issue is carried out in U.S. dollars or for, if applicable, the series that is/are carried out in that currency, from the Closing Date (included) and until the First Reset Date (excluded) at an annual interest rate that may not exceed (a) 5.00% if any of the attorneys appointed

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<sup>12</sup> In January 2020, the Bank executed an issue of contingently convertible preferred securities charged to this delegation for an amount of EUR 1,500,000,000, remaining available for drawdown EUR 8,500,000,000.

under section (U) of this resolution finally sets the First Reset Date six years or six years and six months from the Closing Date, (b) 5.25% if any of the attorneys appointed under section (U) of this resolution finally sets the First Reset Date seven years and seven years and six months from the Closing Date, or (c) 5.50% if any of the attorneys appointed under section (U) of this resolution finally sets the First Reset Date ten years or ten years and six months from the Closing Date; and

(b.i) in the event the issue were to be carried out in euros or for, if applicable, the series that is/are carried out in euros, from the First Reset Date, at the rate resulting from the five-year mid-swap euro rate applicable (calculated in the manner and on the dates established by any of the attorneys appointed under section (U) of this resolution) plus a margin that may not exceed (a) 445.8 basis points if the First Reset Date was fixed six years or six years and six months from the Closing Date, (b) 450.5 basis points if the First Reset Date was fixed seven years or seven years and six months from the Closing Date, or (c) 453.4 basis points if the First Reset Date was fixed ten years or ten years and six months from the Closing Date;

(b.ii) in the event the issue were to be carried out in euros or for, if applicable, the series that is/are carried out in U.S. dollars, from the First Reset Date, at the rate resulting from the 5-year UST applicable (calculated in the manner and on the dates established by any of the attorneys appointed under section (U) of this resolution) plus a margin that may not exceed (a) 393.6 basis points if the First Reset Date was fixed six years or six years and six months from the Closing Date, (b) 397.9 basis points if the First Reset Date was fixed seven years or seven years and six months from the Closing Date, or (c) 391.9 basis points if the First Reset Date was fixed ten years or ten years and six months from the Closing Date.

The Remuneration will accrue from the disbursement date (the “**Closing Date**”) and will be payable on a quarterly basis, in arrears, provided the conditions for payment are present and the Bank has not decided to cancel its payment. In the resolution approving the issue the events for which Remuneration must necessarily, and in accordance with the current legal framework, be cancelled will be established.

These ranges for setting the Remuneration have been determined on the basis of market research carried out by the Bank's Finance Department with the support of investment banks commissioned for this purpose, and will be finalised (resulting in the final initial remuneration rate/s to be applied as well as the margin/s) once the accelerated bookbuilding process has finalised in the light of the indications of interest received from investors, for which reason this Executive Committee considers the economic reasonableness of these terms to be duly justified.

#### Six. Subscription and disbursement of the CCPS

The subscription of the CCPS will occur on the date or during the period determined by the Executive Committee or by the person or persons to whom it delegates the respective powers.

The CCPS will be subscribed by a limited number of professional clients and eligible counterparties<sup>13</sup> or, failing this, by the joint lead managers or underwriters, and will be paid for on the Closing Date, which will be determined by the Executive Committee or by the person or persons to whom the Board of Directors delegates the respective powers.

#### Seven. Maturity date and early redemption

The CCPS are perpetual securities with no maturity date.

<sup>13</sup> As defined in point (10) of Article 4 (1) and in Article 30, respectively, MiFID II, which have in turn been transposed into Spanish law by articles 205 and 207, respectively, of the Law on the Securities Markets.

Notwithstanding the foregoing, on the sixth anniversary (or on any other date or period established for each series by the Executive Committee or by the person or persons to whom it delegates the respective powers) of the Closing Date and, from that time on, on each date of payment of the Remuneration, and subject to the prior authorisation of the appropriate authorities, all (but not part) of the CCPS belonging, if applicable, in each of the series of the issue may be redeemed early at the behest of the Bank pursuant to the terms and conditions that may ultimately be approved by the Executive Committee or by the person or persons to whom it delegates. Furthermore, at any time during the life of the issue, under certain circumstances (mainly relating to a change in tax-related or regulatory circumstances), the Bank may also redeem the CCPS pursuant to the terms established by the Executive Committee or by the person or persons to whom it delegates.

Eight. Basis and methods for conversion

The basis and methods for conversion, which comply with the corresponding provisions of the resolution on the delegation of authority adopted by the shareholders at the general shareholders' meeting on 12 April 2019, are the following:

Events of contingent conversion

The CCPS must mandatorily be converted, in their entirety, into newly-issued common shares of the Bank in the event that the Bank or the Bank's consolidable group has a common equity tier 1 ratio, calculated in accordance with the CRR, of less than 5.125%.

Conversion ratio

The conversion ratio of the CCPS will be variable.

The number of shares to which each holder of CCPS will be entitled to receive if the conversion occurs will be the result of dividing the value of the CCPS of each series, if applicable, held by the holder by the value attributed to the Bank's common shares at the time of conversion (the "**Conversion Price**"). If this results in fractional shares, the fractions will in all cases be rounded down, and the Bank will not be obliged to pay remuneration for the remaining fractional shares.

For purposes of the conversion ratio:

- The value of the CCPS will be their nominal value; and
- The Conversion Price of the Bank's common shares will be, if the shares are then admitted to trading, the highest from among:
  - (a) The Market Value of a single common share of the Bank, calculated as determined by the Executive Committee and translated, as the case may be, into U.S. dollars;
  - (b) the Minimum Conversion Price; and
  - (c) the nominal value of the Bank's shares at the time of conversion, translated, as the case may be, into U.S. dollars, such that the provisions of Article 415 of the Companies Law are in all cases satisfied.

Where:

- "**Minimum Conversion Price**" is an amount denominated in euros or its equivalent in U.S. dollars that results from applying the 66% to the listing price (converted into, as the case may be, U.S. dollars) for one day or for the mean of several days' listing prices of the Bank's shares, which will also be established by the Executive Committee.

The Minimum Conversion Price will be modified, if appropriate, by applying the anti-dilution adjustments established by the Executive Committee, in accordance with the Bank's usual practice for this type of issues.

- **“Market Value”** means, for any given date, the listing price on a single day or the mean of several days' listing prices of the shares of Banco Santander as determined by the Executive Committee and converted, if applicable, into U.S. dollars.
- In the event that the shares were not, at that date, admitted to trading, the Conversion Price will be the higher of the Minimum Conversion Price and the nominal value of the shares at that date.

The basis and methods for conversion of the CCPS are determined on the basis that it is and has been the usual practice for this type of issues in the market in recent years, establishing a variable conversion ratio linked to the market value of the Bank at the time of conversion and a minimum conversion price of 66%, in line with Banco Santander's usual practice in issues made in recent years and accepted in the market. Therefore, this Executive Committee considers that both the established conversion ratio and the minimum conversion price are reasonable.

#### Nine. Guarantees

The CCPS will in all cases be guaranteed by the general credit of Banco Santander in accordance with the rank and priority indicated in the following section. They will not benefit from any additional guarantees.

#### Ten. Order of priority

The payment obligations in respect of principal under the CCPS, while they qualify as Additional Tier 1 Instruments (as such term is defined below) will rank, by order of priority, junior to the payment obligations in respect of principal under Tier 2 Instruments (as such term is defined below) and shall constitute direct, unconditional, unsecured and subordinated obligations of the Bank pursuant to Article 281.1.2<sup>o</sup> of the consolidated text of the Insolvency Law, approved by Royal Legislative Decree 1/2020 of 5 May 2000 (the **“Insolvency Law”**) and in accordance with the Additional Provision 14.3 of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise).

**“Additional Tier 1 Instruments”** means any subordinated obligation (*créditos subordinados*) of the Bank pursuant to Article 281.1.2 of the Insolvency Law, qualifying as additional tier 1 instruments under Additional Provision 14.3 (c) of Law 11/2015.

**“Tier 2 Instruments”** means any subordinated obligation (*créditos subordinados*) of the Bank according to Article 281.1.2 of the Insolvency Law, qualifying as tier 2 instruments under Additional Provision 14.3 (b) of Law 11/2015.

#### Eleven. Capital increase

The Executive Committee, acting pursuant to the powers delegated to it by the Board of Directors in connection with the issue of convertible securities approved by the shareholders at the ordinary general shareholders' meeting of 12 April 2019 under item Seven of the agenda, and as approved by the shareholders at the ordinary general shareholders' meeting of Banco Santander of April 3, 2020, under item Six of the agenda in connection with the delegation to increase the share capital, will therefore approve the capital increase necessary to accommodate for the potential conversion of the CCPS.

Twelve. Admission to listing

Banco Santander will submit an application for the listing of the CCPS on an organised secondary market. Notwithstanding the foregoing, Banco Santander may submit an application for the listing of the CCPS on any market, whether official or unofficial, regulated or unregulated, organised or unorganised, domestic or foreign, during the life of the CCPS.

Thirteen. Other terms

The terms for the issue of the CCPS shall be governed by the provisions of the Companies Act, the bylaws of Banco Santander and the resolution adopted by the shareholders at the general shareholders' meeting held on 12 April 2019, under item Seven of the agenda and, within the limits established therein, by the terms and conditions that may be established by the Executive Committee in the resolution approving the issue.

Fourteen. Independent expert report

Pursuant to Article 510 of the Companies Act, the appointment of an independent expert to issue the corresponding report has been requested to the Commercial Registry of Cantabria (pursuant to articles 414 and 417 of the Companies Act) on the basis and methods for conversion of the CCPS, on the fairness of the data set forth in this report and on the suitability of the conversion ratio and its adjustment formulas to offset a possible economic dilution of the shareholders.

In response to the request the Commercial Registry designated Deloitte, S.L. as independent expert, to which the Bank will submit this report and such other information that the auditor deems appropriate in order to issue its report for the purposes indicated in articles 414, 417, 510 and 511 of the Companies Act, along with the audit reports of the individual annual accounts of Banco Santander and of the consolidated annual accounts of Banco Santander and its subsidiaries for the year ended on 31 December 2020.

Fifteen. Subsequent events

There are no events that are significant for Banco Santander subsequent to 31 December 2020 other than those for which the Bank has given notice after such date to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) as privileged information or other relevant information in compliance with the provisions of article 17 of Regulation (EC) 596/2014 and article 226 of the Law on the Securities Markets, or which are included in the periodic public information communicated to that Committee.

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Madrid, [●] May 2021