

ORDINARY GENERAL SHAREHOLDERS' MEETING
OF BANCO SANTANDER, S.A. – OCTOBER 2020

Item One.- **Application of results obtained during financial year 2019.**

RATIONALE SUBMITTED BY THE BOARD OF DIRECTORS OF BANCO SANTANDER, S.A. REGARDING THE PROPOSAL REFERRED TO IN ITEM ONE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 26 OCTOBER 2020, ON FIRST CALL, AND FOR 27 OCTOBER 2020, ON SECOND CALL

This rationale is submitted in compliance with the provisions of section 40.6.bis of Royal Decree-Law 8/2020 of 17 March on urgent extraordinary measures to address the economic and social impact of COVID-19, and is intended to report on the reasons why the board of directors of Banco Santander, S.A. ("**Banco Santander**" or the "**Bank**") has chosen to replace the proposed application of results contained in the notes to the annual accounts corresponding to financial year 2019, which were already approved by the shareholders at the general shareholders' meeting held on 3 April 2020, with the proposed application of results that is submitted for approval by the shareholders under item One on the agenda.

The notes to the Bank's annual accounts for financial year 2019 included a proposed application of results that contemplated the use of an amount of up to 1,761,520,145.69 euros to pay a portion of the 2019 final dividend and the acquisition of bonus share rights that were to be provided to the shareholders through the *Santander Dividendo Elección* scrip dividend scheme within the framework of the dividend policy for 2019.

On 27 February 2020 the board of directors resolved to submit the above-described application of results to the shareholders at the general shareholders' meeting called to be held on 2 April 2020, on first call, and 3 April 2020, on second call, under item Two on the agenda (*Application of results obtained during Financial Year 2019*).

However, on 27 March 2020 the European Central Bank (ECB) issued a recommendation in which it asked all European credit institutions under its supervision to refrain, at least until 1 October 2020, from paying out dividends with a charge to the results from financial years 2019 and 2020 or to make irrevocable commitments to pay out them, in order to preserve capital ("**Recommendation I**").

Taking into account Recommendation I and in line with the Bank's mission to help people and businesses prosper, on 2 April 2020 the board of directors thus decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, resolving to this end, among other issues, to withdraw from the agenda for said general meeting the proposal

corresponding to item Two (*Application of results obtained during Financial Year 2019*), deferring the decision on the application of results obtained by the Bank during financial year 2019 to a meeting to be held no later than 31 October 2020. The Bank reported all of the above through the corresponding notice of inside information (*información privilegiada*) addressed to the CNMV on that same 2 April 2020 and at the general shareholders' meeting held on 3 April 2020, at which it expressly warned that the proposed application of results submitted at the next meeting might differ from the one initially submitted.

Subsequently, on 27 July 2020, the ECB issued a second recommendation to all European credit institutions under its supervision extending the effects of Recommendation I and asking them to refrain, until 1 January 2021, from paying out dividends from the results for financial years 2019 and 2020 or from entering into irrevocable commitments to pay out them ("**Recommendation II**").

In compliance with Recommendation II, the board of directors has resolved to replace the initial proposed application of results with the one being submitted for approval by the shareholders under item One on the agenda, which provides for allocating the entirety of the Bank's results for financial year 2019 to increase the Voluntary Reserve, except for the amount used for payment of the dividend paid prior to the date of the ordinary general meeting and the issuance of Recommendation I.

Despite the fact that, as announced on 23 March 2020, the Bank meets the capital requirements and the board of directors is comfortable with its capital buffers over regulatory requirements, Recommendation I and Recommendation II are considered to be extremely significant, given the strength and authority of the ECB's recommendations. This means that it is now appropriate to amend the proposed application of results obtained by the Bank in financial year 2019 and to apply the entire amount of the results pending application to increasing the Bank's Voluntary Reserve.

Proposal:

To approve the application of results in the amount of 3,530,216,306.15 euros obtained by the Bank in financial year 2019, to be distributed as follows:

- Euros 1,661,811,458.20 to the payment of the dividend already paid prior to the date of the ordinary General Meeting.
- Euros 1,868,404,847.95 to increase the Voluntary Reserve.
- Euros 3,530,216,306.15 in total.

Item Two.- Board of directors: appointment, re-election or ratification of directors.

Two A. Setting of the number of directors.

Two B. Appointment of Mr Ramón Martín Chávez Márquez.

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF BANCO SANTANDER, S.A. REGARDING THE PROPOSALS REFERRED TO IN ITEM TWO ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 26 OCTOBER 2020, ON FIRST CALL, AND FOR 27 OCTOBER 2020, ON SECOND CALL

This report has been prepared in compliance with the provisions of section 529 *decies* of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*) and is intended to provide a rationale for the proposed appointment of a director of Banco Santander, S.A. ("**Banco Santander**" or the "**Bank**") that is submitted for the approval of the shareholders acting at the general shareholders' meeting under item Two on its agenda, evaluating for such purposes the competence, experience and merits of the person whose appointment is proposed at the meeting.

Item Two A) also includes a proposal to set the number of the Bank's directors at 15, which is within the threshold established by Recommendation 13 of the current Good Governance Code of Listed Companies.

In relation to the proposed appointment of Mr Ramón Martín Chávez Márquez (R. Martín Chávez), it is noted for the record that he will fill the vacancy to be left by Ms Esther Giménez-Salinas i Colomer, who will cease to hold office at the time of receipt of the regulatory approval provided for in Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, in Council Regulation (EU) No 1024/2013 of 15 October 2013 and in Regulation (EU) No 468/2014 of the European Central Bank regarding suitability and in connection with the appointment of Mr R. Martín Chávez, and he accepts his appointment.

For purposes of item Two B), the board's assessment of the competence, experience and merits of Mr R. Martín Chávez, whose appointment is submitted to the shareholders at the general meeting, is included separately below. All of the foregoing is carried out in view of the reasoned proposal made by the appointments committee on 15 September 2020, in accordance with the aforementioned section 529 *decies* of the Spanish Capital Corporations Law and articles 18.4 and 26 of the rules and regulations of the board, and with which the board concurs in all respects. The aforementioned proposal of the appointments committee is attached as an Exhibit to this directors' report.

It is also noted that the appointment of Mr R. Martín Chávez submitted to a vote under item Two B) on the agenda is subject to obtaining the regulatory approval provided for in

Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, in Council Regulation (EU) 1024/2013 of 15 October 2013 and in Regulation (EU) No 468/2014 of the European Central Bank regarding suitability. If said approval is not obtained and the European Central Bank rejects the suitability of Mr R. Martín Chávez, it is expected that the existing vacancy on the board, if any, will be covered either by interim appointment of another candidate by the board itself after the holding of the general meeting or by appointment of another candidate at a subsequent general meeting.

Similarly, for the purposes of section 518.e) of the Spanish Capital Corporations Law, this report contains full information on the identity, curriculum vitae and category of Mr R. Martín Chávez.

Detailed information is provided below regarding Mr R. Martín Chávez included in the proposed appointment submitted to the shareholders at the general meeting.

Mr R. Martín Chávez (item Two B)

(a) Profile description:

- Born in 1964 in Albuquerque, New Mexico (U.S.A.). He received his A.B. *magna cum laude* in Biochemical Sciences and S.M. in Computer Science from Harvard University and his Ph.D. in Medical Information Sciences from Stanford University.
- He has long and extensive experience in the financial and IT sectors, having been CTO and co-founder of Quorum Software Systems (1989-1993), Global Head of Energy Derivatives at Credit Suisse Financial Products (1997-2000) and CEO and co-founder of Kiodex (2000-2004). In 2005 he joined Goldman Sachs, where he has held various executive positions and responsibilities, including global co-head of the Securities Division, CIO and CFO. He became a partner at Goldman Sachs in 2006, and was a member of the Management Committee from 2012 until 2019, when he left the firm.
- Other significant positions: he has been a director of PNM Resources, Inc., of the International Swaps and Derivatives Association (ISDA) and of The Santa Fe Opera and a member of the board of trustees of amfAR (the Foundation for AIDS Research). He is currently an independent director of Recursion Pharmaceuticals, Inc., of Paige.AI, Inc. and of Mount Sinai Genomics, Inc., d/b/a Sema4. He is also a member of the Harvard University Board of Overseers, and a member of the board of trustees of the Institute for Advanced Study of Princeton (New Jersey) and of the Los Angeles Philharmonic, as well as a member of the Stanford University School of Medicine Board of Fellows.

(b) Evaluation:

The board concurs with the evaluation of the appointments committee and considers that the curriculum vitae and business career of Mr R. Martín Chávez, who has successfully held various management positions in the global financial sector as well as in the IT sector, demonstrate that he has the competence, experience and merits necessary to hold the position of director.

(c) Category of director:

The board, which concurs with the considerations of the appointments committee, considers Mr R. Martín Chávez to be an independent director, as he fulfils the requirements established in sub-section 4 of section 529 *duodecies* of the Spanish Capital Corporations Law and in article 6.2 (c) of the rules and regulations of the board.

EXHIBIT
REASONED PROPOSAL OF THE APPOINTMENTS COMMITTEE (15
SEPTEMBER 2020)

REASONED PROPOSAL OF THE APPOINTMENTS COMMITTEE OF BANCO SANTANDER, S.A. REGARDING THE APPOINTMENT OF A DIRECTOR OF BANCO SANTANDER, S.A. WHICH IS SUBMITTED FOR THE APPROVAL OF THE SHAREHOLDERS ACTING AT THE NEXT ORDINARY GENERAL MEETING

This reasoned proposal is made in accordance with the provisions of section 529 *decies* of the Spanish Capital Corporations Law and of articles 18.4 and 26 of the rules and regulations of the board, and is intended to propose to the board of directors of Banco Santander, S.A. (the “**Bank**” or the “**Company**”) the appointment of a director to be submitted to the shareholders acting at the next ordinary general shareholders’ meeting.

Pursuant to the aforementioned article 26 of the rules and regulations of the board of the Company, the appointments committee shall prepare a reasoned report on and proposal for appointments, re-elections and ratifications of directors, regardless of the category to which they are assigned.

The update and analysis of the competencies and diversity matrix of the board carried out in financial year 2019 showed, among other things, the advisability of continuing to strengthen competencies in the technological and digital areas and international experience and geographical diversity, especially in the geographic areas in which the Group does business. This is met by the proposed appointment of Mr Ramón Martín Chávez Márquez (R. Martín Chávez).

The proposed appointment of Mr R. Martín Chávez replacing Ms Esther Giménez-Salinas i Colomer does not affect the board of directors’ gender diversity commitment nor does it affect the resolution passed in 2019 which raised the target of the presence of women on the board from 30% to between 40% and 60% by 2021. Although the change in the composition of the board of directors proposed hereby will result in, if approved, reducing the presence of women to below 40%, the aim is still to restore such presence in the short term to achieve the abovementioned goal.

By virtue of all of the foregoing, the proposal of this committee includes setting the number of directors at 15, and as to the specific appointment of a director, is based on the following:

Appointment of Mr R. Martín Chávez

By virtue of the powers legally vested therein, this committee submits to the board of directors the proposed appointment of Mr R. Martín Chávez as independent director, as described below.

Born in 1964 in Albuquerque, New Mexico (U.S.A.). He received his A.B. *magna cum laude* in Biochemical Sciences and S.M. in Computer Science from Harvard University and his Ph.D. in Medical Information Sciences from Stanford University.

He has long and extensive experience in the financial and IT sectors, having been CTO and co-founder of Quorum Software Systems (1989-1993), Global Head of Energy Derivatives at Credit Suisse Financial Products (1997-2000) and CEO and co-founder of Kiodes (2000-2004). In 2005 he joined Goldman Sachs, where he has held various executive positions and responsibilities, including global co-head of the Securities Division, CIO and CFO. He became a partner at Goldman Sachs in 2006, and was a member of the Management Committee from 2012 until 2019, when he left the firm.

Mr R. Martín Chávez has been a director of PNM Resources, Inc., of the International Swaps and Derivatives Association (ISDA) and of The Santa Fe Opera and a member of the board of trustees of amfAR (the Foundation for AIDS Research).

He is currently an independent director of Recursion Pharmaceuticals, Inc., of Paige.AI, Inc. and of Mount Sinai Genomics, Inc., d/b/a Sema4. He is also a member of the Harvard University Board of Overseers, and a member of the board of trustees of the Institute for Advanced Study of Princeton (New Jersey) and of the Los Angeles Philharmonic, as well as a member of the Stanford University School of Medicine Board of Fellows.

From the information available to the Bank, Mr R. Martín Chávez has the necessary knowledge and experience to perform the duties of his position. He brings to the board extensive experience in the global financial sector as well as in the information technology (IT) sector, which will enhance the board's digital capabilities. He also increases the geographical and international educational diversity thereof. Consequently, it is considered that Mr R. Martín Chávez has the competence, experience and merits necessary to hold the position of director.

Additionally, for the purposes established in Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, in Royal Decree 84/2015 of 13 February, implementing Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, in Banco Santander directors' recruitment, suitability assessment and succession policy and in the internal procedure for the selection and ongoing evaluation of the suitability of key personnel for the performance of banking activities within the Santander Group, this committee states, at this date, that Mr R. Martín Chávez possesses the necessary knowledge and experience to hold the position of director of the Company and that he is able to carry out good governance thereof. This occurs after having analysed the content of the suitability assessment questionnaire completed by Mr R. Martín Chávez and his professional background and once it was confirmed, according to the information provided, that Mr R. Martín Chávez is within the maximum number of positions established in section 26 of Law 10/2014 of 26 June, for which reason it is

considered that he is able to devote sufficient time to performing the duties of his position and that he is not affected by conflicts of interest. In view of the foregoing, his suitability for the performance of the position of director is thus verified. His appointment as director will in any event be subject to the effective receipt of the relevant regulatory approval. If it is not obtained and the European Central Bank does not confirm the suitability of the candidate, the resulting vacancy could be filled on an interim basis after the holding of the general shareholders' meeting or the appointment of a new candidate would be proposed at a subsequent meeting.

Finally, with respect to the category of director, this committee considers that Mr R. Martín Chávez fulfils the requirements established in sub-section 4 of section 529 *duodecies* of the Spanish Capital Corporations Law and in article 6.2(c) of the rules and regulations of the board to be considered an independent director.

Proposals¹:

- Two A.-** To set the number of directors at 15, which is within the maximum and the minimum established by the Bylaws.
- Two B.-** To appoint Mr Ramón Martín Chávez Márquez as a director, with the classification of independent director, for the Bylaw-mandated period of three years. The effectiveness of this appointment is subject to obtaining the regulatory approval provided for in Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, in Council Regulation (EU) No 1024/2013 of 15 October 2013 and in Regulation (EU) No 468/2014 of the European Central Bank regarding suitability.

¹ The proposals regarding the setting of the number of directors and the appointment made under items Two A and Two B shall be submitted to a separate vote.

Item Three.-

- Three A.** Examination and, if appropriate, approval of the balance sheet of Banco Santander, S.A. as at 30 June 2020.
- Three B.** Increase in share capital by such amount as may be determined pursuant to the terms of the resolution, by means of the issuance of new ordinary shares having a par value of one-half (0.5) euro each, with no share premium, of the same class and series as those that are currently outstanding, with a charge to reserves. Express provision for the possibility of less than full allotment. Delegation of powers to the board of directors, which may in turn delegate such powers to the executive committee, to: establish the terms and conditions of the increase as to all matters not provided for by the shareholders at this general meeting; take such actions as may be required for implementation thereof; amend the text of sections 1 and 2 of article 5 of the Bylaws to reflect the new amount of share capital; and to execute such public and private documents as may be necessary to carry out the increase. Application to the appropriate domestic and foreign authorities for admission to trading of the new shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Automated Quotation System (*Mercado Continuo*) and on the foreign Stock Exchanges on which the shares of Banco Santander are listed in the manner required by each of such Stock Exchanges.

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF BANCO SANTANDER, S.A. REGARDING THE PROPOSALS REFERRED TO IN ITEMS THREE A AND B ON THE AGENDA FOR THE ORDINARY GENERAL SHAREHOLDERS' MEETING CALLED FOR 26 OCTOBER 2020, ON FIRST CALL, AND FOR 27 OCTOBER 2020, ON SECOND CALL

This report has been prepared in connection with the proposal to increase share capital which will be submitted for approval under item Three B on the agenda for the said ordinary general shareholders' meeting of Banco Santander, S.A. ("**Banco Santander**", "**Santander**" or the "**Bank**"), in relation to which the approval of the Bank's balance sheet is also proposed under item Three A on the agenda.

The report is issued in compliance with the requirements established in sections 286 and 296 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*), pursuant to which the board of directors must issue a report justifying the proposal to be submitted to

the shareholders at the general shareholders' meeting, given that the approval and execution of such proposal necessarily entail the amendment of sections 1 and 2 of article 5 of the Bylaws concerning share capital.

As previously stated, the balance sheet of Banco Santander as at 30 June 2020 is also submitted for the approval of the shareholders at the general shareholders' meeting under item Three A on the agenda as an instrumental part of the resolution to increase capital under item Three B on the agenda and in order to comply with the requirement set out in section 303.2 of the Spanish Capital Corporations Law.

For purposes of facilitating comprehension of the transaction giving rise to the proposed share capital increase submitted at the meeting, shareholders are first provided with a description of the purpose of and rationale for such capital increase. Next, a description is provided of the main terms and conditions of the capital increase charged to reserves that constitutes the subject matter of this report. Last, the proposed resolutions to approve the balance sheet and to increase capital which are submitted at the general shareholders' meeting are presented.

I. PURPOSE OF THE PROPOSAL

The purpose of the proposed capital increase with a charge to reserves to be submitted to the shareholders at the ordinary general shareholders' meeting (the "**Capital Increase**" or the "**Increase**") is to permit the remuneration of 0.10 euro per share to be implemented in the form of newly-issued shares, which was announced on 29 July.

On 27 March 2020 the European Central Bank (ECB) issued a recommendation in which it asked all European credit institutions under its supervision to refrain, at least until 1 October 2020, from paying out dividends with a charge to the results from financial years 2019 and 2020 or to make irrevocable commitments to pay out them, in order to preserve capital ("**Recommendation I**").

Taking into account Recommendation I and in line with the Bank's mission to help people and businesses prosper, on 2 April 2020 the board of directors decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, resolving to this end, among other issues, to withdraw from the agenda for the ordinary general meeting of the following day the proposed application of results and the resolution to increase capital with a charge to reserves that must be used to implement the application of the *Santander Dividendo Elección* scrip dividend scheme apart from remuneration with a charge to said results. This deferred the decision regarding the application of results obtained by the Bank during financial year 2019, which is now submitted to the shareholders at the general meeting under item One on the agenda. The Bank reported all of the above through the corresponding notice of inside information (*información privilegiada*) addressed to the CNMV on that same 2 April 2020 and at the general shareholders' meeting held on 3 April 2020.

Subsequently, on 27 July 2020, the ECB issued a second recommendation to all European credit institutions under its supervision extending the effects of Recommendation I and asking them to refrain, until 1 January 2021, from paying out dividends from the results for financial years 2019 and 2020 or from entering into irrevocable commitments to pay out them (“**Recommendation II**”).

In this context, on 29 July 2020, the board of directors stated its intention to remunerate shareholders through the delivery of newly-issued shares, in an amount equivalent to 0.10 euro per share. The Capital Increase that is submitted to the shareholders at the ordinary general meeting covers the issue of shares required to pay this remuneration.

Paying this remuneration through the *Santander Dividendo Elección* scrip dividend scheme has not been proposed because the provision on not paying out dividends contained in Recommendation II will also be deemed to apply to any type of payment in cash affecting the tier 1 ordinary capital and reducing equity in terms of either quantity or quality. Under the *Santander Dividendo Elección* scrip dividend scheme, the Bank’s assumption of a purchase commitment of the bonus share rights would entail a breach of Recommendation II, as long as it constitutes a payment in cash that reduces equity.

As also announced on 29 July, the board of directors intends to apply a 100% cash dividend policy as soon as market conditions normalise, subject to regulatory recommendations and approvals. Therefore, the Bank has reserved six basis points of CET1 capital during the quarter ended 30 June 2020 for a possible cash dividend with a charge to 2020 results. The distribution of the share premium submitted to the shareholders under item Four on the agenda is framed within this context, upon the terms explained in the rationale for the proposal.

When the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers decides to implement the Capital Increase, the shareholders of the Bank will receive one bonus share right (*derecho de asignación gratuita*) for every Santander share they hold. These rights will be tradable and, as such, may be traded on the Spanish Stock Exchanges during a period of at least 15 calendar days¹ (unless applicable legal provisions provide for a different minimum period, in which case such period will be used). Once this period ends, the rights will automatically be converted into newly-issued shares of the Bank that will be allotted to their holders. The exact number of shares to be issued in the Increase, and therefore, the number of rights needed to receive one new share, will depend on the listing price of the shares of the Bank at the

¹ The ability to transfer their bonus share rights on the market may be limited in the case of indirect shareholders of the Bank, such as participants in the ADS program in the United States, holders of CDIs through the nominee services sponsored by Banco Santander in the United Kingdom or for any other reason, due to the specific terms and conditions applicable to the programmes in which these shareholders participate.

time the Increase is carried out (the “**Listing Price**”), in accordance with the procedure described in this report, and will be determined such that, on the date on which it is resolved to implement the Capital Increase, the underlying value of each bonus share right is approximately 0.10 euro. Without prejudice to the foregoing, a shareholder who chooses to transfer their bonus share rights on the market may do so at the price at which said rights are from time to time listed, which may be more or less than 0.10 euro (or the highest lower amount taking into account the limit on market value of the shares to be issued as outlined below). And if the shareholder does not transfer their rights on the market, the shareholder will receive the number of fully paid-up new shares to which he or she is entitled at the end of the period for trading the rights.

A shareholder who does not have a sufficient number of rights to receive a share, or to receive a share additional to that to which the shareholder is entitled, may purchase on the market the number of bonus share rights that the shareholder lacks or sell the excess rights. Without prejudice thereto, it is proposed to the shareholders to authorise the board of directors to establish such mechanisms as it deems appropriate to allow and carry out the sale by the shareholders of said excess rights (odd-lots), which may consist of the acquisition of such rights by Banco Santander or on its behalf, or the sale of the rights on the market.

In order to allow the number of shares to be issued so that the underlying value of the bonus share right is approximately 0.10 euro per share, the amount of the Capital Increase will be determined in accordance with the formulas described below, establishing a maximum market value of 1,800 million euros for the shares to be issued in implementation of the Capital Increase, valued at the Listing Price at that time (the “**Market Value of the Shares**”)².

The board of directors or, by delegation therefrom, the executive committee or any director with delegated powers may decide not to implement the Capital Increase, in which case the resolution submitted to the shareholders would be deprived of effect pursuant to the provisions of section II.6 below.

II. MAIN TERMS AND CONDITIONS OF THE CAPITAL INCREASE

The main terms and conditions of the Capital Increase are described below.

1. Amount of the Capital Increase, number of shares to be issued and number of bonus share rights needed to receive one new share

The number of shares to be issued in the Capital Increase will be the result of dividing the Market Value of the Shares from time to time set within the limit of 1,800 million

² Subject to rounding, if required, in accordance with the formulas set forth in section II.1 of this report.

euros by the value of the shares of the Bank at the time the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, decides to carry out the Increase (i.e., the Listing Price). The number so calculated will be rounded in order to obtain a whole number of shares and a ratio for conversion of rights into shares that is also a whole. For the same purposes, Banco Santander will also cause a Santander Group company that holds shares to waive the necessary number of bonus share rights.

Once the number of shares to be issued is established, the amount of the Capital Increase will be the result of multiplying that number of new shares by the par value of the Banco Santander shares (0.5 euro per share). Thus, the Capital Increase will be made at par value, with no share premium.

Specifically, when the decision is made to carry out the Capital Increase, the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, will determine the number of shares to be issued and, therefore, the amount of the Capital Increase and the number of bonus share rights needed to receive one new share, using the following formula (with the result being rounded downwards to the nearest whole number):

$$\text{NNS} = \text{TNShrs} / \text{Num. rights}$$

where,

NNS = Number of new shares to be issued;

TNShrs = Number of Banco Santander shares outstanding on the date the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, resolves to implement the Capital Increase; and

Num. rights = Number of bonus share rights needed for the allotment of one new share, which number will be obtained by applying the following formula, rounded up to the nearest whole number:

$$\text{Num. rights} = \text{TNShrs} / \text{Provisional num. shares}$$

where,

$$\text{Provisional num. shares} = \text{Market Value of the Shares} / \text{ListPri.}$$

For the purposes hereof:

“Market Value of the Shares” is the market value of the Capital Increase, which will be determined by the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, with a maximum limit of 1,800 million euros, based on the number of outstanding shares (i.e. TNShrs) and the Listing

Price (ListPri) in order for the underlying value of the bonus share right at the time of implementation of the Capital Increase calculated based on the ListPri to be approximately 0.10 euro per share (or the highest lower amount taking into account the limit indicated above).

“ListPri” is the closing price of the Bank’s shares on the Spanish Stock Exchanges in the last trading session ended prior to the resolution of the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, to carry out the Capital Increase, rounded to the nearest one-thousandth of a euro and, in case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth (amount referred to as “Listing Price” in this report).

Example of calculation of the number of new shares to be issued, the amount of the Increase and the number of bonus share rights needed to receive one new share:

Solely for the purpose of facilitating an understanding of how the formula included in this section should be applied, an example is given below. The results of these calculations are not representative of what the results will be when the Capital Increase is carried out, which results will depend on the various variables used in the formula.

For the purposes of this example:

- **The Market Value of the Shares is 1,775 million euros.**
- **A ListPri of 1.8 euros is assumed.**
- **The TNShrs is 16,618,114,582 (number of Santander shares on the date of this report).**

Therefore:

Provisional num. shares = Market Value of the Shares / ListPri = 1,775,000,000 / 1.8 = 986,111,111.11

Num. rights = TNShrs / Provisional num. shares = 16,618,114,582 / 986,111,111.11 = 16.8521 = 17 (rounded upwards)

NNS = TNShrs / Num. rights = 16,618,114,582 / 17 = 977,536,151.88 = 977,536,151 (rounded downwards)

Consequently, in this example, (i) the number of new shares to be issued in the Increase would be 977,536,151, (ii) the amount of the Increase would be

488,768,075.5 euros (977,536,151 x 0.5), and (iii) 17 bonus share rights (or old shares) would be needed to receive one new share³.

As indicated, this is just an example. In it, the underlying value of the bonus share right would be exactly 0.10 euros. Other figures can lead to slightly different results. Thus, if the ListPri were, for instance, 1.85 euros, with the same Market Value of the Shares the underlying value of the right would be slightly lower (0.097 euros).

2. Bonus share rights

Each outstanding share of the Bank will grant its holder one bonus share right.

The number of bonus share rights needed to receive one new share will be automatically determined according to the proportion between the number of new shares issued in the Capital Increase and the number of outstanding shares, calculated in accordance with the formula set forth in section II.1 above.

The holders of debentures or instruments convertible into shares of Banco Santander will have no bonus share rights; however, if applicable, they will be entitled to a modification of the ratio for conversion of debentures into shares (or of the minimum and/or maximum limits of such ratio, when the ratio is variable), in proportion to the amount of the Capital Increase.

If the number of bonus share rights needed to receive one share (17 in the example above) multiplied by the number of new shares (977,536,151 in the same example) is lower than the number of outstanding shares (16,618,114,582), Santander, or a company of its Group, will waive a number of bonus share rights equal to the difference between the two figures (i.e. 15 rights in the above-mentioned example) for the sole purpose of having a whole number of new shares and not a fraction.

The bonus share rights will be allotted to the shareholders of Banco Santander who have acquired their respective shares and who appear as such in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) on the corresponding dates in accordance with the applicable rules for clearing and settlement of securities. The bonus share rights may be traded for the term determined by the board of directors or, by delegation therefrom, the executive committee or a director with delegated powers, subject to a minimum term of fifteen calendar days (unless applicable legal provisions provide for a different minimum period, in which case such period will be used).

³ In this example, a Santander Group company would have to waive 15 bonus share rights corresponding to 15 Santander shares owned by it, so that a whole number of shares is issued.

3. Rights of the new shares

The new shares to be issued in the Capital Increase will be ordinary shares with a par value of one-half (0.5) euro each, of the same class and series as those currently outstanding, represented in book-entry form, the records of which will be kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) and its participants. The new shares will grant their holders the same economic, voting and related rights as the currently outstanding ordinary shares of the Bank from the time at which the Capital Increase is declared to have been subscribed and paid up. The new shares will be delivered fully paid-up and entirely free of charge.

4. Balance sheet and reserves to which the Capital Increase will be charged

The balance sheet used for the purposes of the Capital Increase is that corresponding to 30 June 2020, audited by PricewaterhouseCoopers Auditores, S.L. and which is submitted for approval by the shareholders at the ordinary general shareholders' meeting under item Three A on the agenda therefor.

The Capital Increase is charged entirely to the reserves contemplated in section 303.1 of the Spanish Capital Corporations Law. In principle, it is expected to be charged to the reserve for the share premium, although it is within the purview of the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, to determine the specific reserve to be used and the amount thereof in accordance with the balance sheet used for the purposes of the Capital Increase upon implementation of the Increase.

5. Tax regime

The tax regime applicable in the Capital Increase to shareholders in Spain will generally be as follows (without prejudice to the special provisions applicable to shareholders who are non-residents or who are subject to taxation in regional (foral) territories of the Basque Country or in the Foral (Autonomous) Community of Navarre, or to potential future regulatory changes that may affect the applicable tax regime):

Receiving new fully paid-up shares

The delivery of the shares issued in the Capital Increase will be considered for tax purposes as a delivery of fully paid-up bonus shares, and therefore, will not be considered shareholders' income for purposes of Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) ("**IRPF**") or Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*) ("**IRNR**"), if the shareholders do not act through a permanent establishment in Spain, nor will they be subject to any withholding or payment on account.

The acquisition value, both of the new shares received in the Capital Increase and of the shares from which they arise, will be the result of dividing the total cost by the applicable number of shares, both old and new. The acquisition date of said fully paid-up bonus shares will be that of the shares from which they arise.

For the Corporate Income Tax (*Impuesto sobre Sociedades*) (“IS”) and for the IRNR for non-residents acting through a permanent establishment in Spain, to the extent that a complete commercial cycle is closed, these shareholders will pay tax pursuant to applicable accounting rules (taking into account, if applicable, the ICAC Resolution of 5 March 2019⁴, which governs the accounting treatment of capital increases with a charge to reserves, among other corporate transactions), and any specific rules that may apply regarding the aforementioned taxes. All of the foregoing is without prejudice to the rules for determining the tax basis that may apply in these taxes. Without prejudice to the corresponding book-entry record, pursuant to the opinion of administrative law scholars and the IS and IRNR rules for non-residents acting through a permanent establishment in Spain, no withholding or payment on account should be applied to the delivery of bonus share rights or fully paid-up bonus shares as a result of the Capital Increase.

Transfer of all or part of the bonus share rights on the market

If the shareholders sell their bonus share rights on the market, the amount so obtained will be taxed as follows:

- For purposes of the IRPF and the IRNR without a permanent establishment, the amount obtained from the sale of the bonus share rights on the market will be considered as a capital gain for the seller, without prejudice to the potential application to IRNR subjects without a permanent establishment of international treaties, including treaties signed by Spain for the avoidance of double taxation and to prevent the evasion of income tax to which they may be entitled, or to the exemptions established in the IRNR rules.

For shareholders subject to IRPF, that capital gain will be subject to IRPF tax withholding at the corresponding taxation rate. This withholding will be applied by the relevant depository, or in the absence thereof by the financial broker or commercial notary participating in the transfer.

- Taxation under the IS and the IRNR with a permanent establishment in Spain, to the extent that a full business cycle has been completed, will be determined in accordance with the applicable accounting rules (paying particular attention to

⁴ Resolution of 5 March 2019 of the Accounting and Auditing Institute (*Instituto de Contabilidad y Auditoría de Cuentas*) developing the standards for presentation of financial instruments and other accounting aspects relating to the commercial regulation of capital enterprises (the “**ICAC Resolution**”).

the aforementioned ICAC Resolution) and the legal provisions applicable to said taxes and any special rules thereof. All of the foregoing is without prejudice to the rules for determining the tax basis that may apply in these taxes.

It should be kept in mind that this summary does not explain all possible tax consequences of the various options relating to the implementation of the Capital Increase. In particular, there is no description of the consequences that may arise in their countries of residence for shareholders who are not resident in Spain for tax purposes. Therefore, shareholders are advised to consult with their tax advisors regarding the specific tax impact of the proposed remuneration system, taking into account the particular circumstances of each shareholder or holder of bonus share rights, and to focus on any changes that may occur in both applicable law on the date of this report and the standards of interpretation thereof.

Finally, the holders of American Depositary Receipts (ADRs) and CREST Depositary Interests (CDIs) are advised to consult with their tax advisors before making a decision regarding the implementation of the Capital Increase.

6. Delegation of powers and implementation of the Increase

It is hereby proposed to delegate to the board of directors, with express authority to delegate in turn to the executive committee or to any director with delegated powers, the power to decide the date on which the Capital Increase to be approved by the shareholders at the ordinary general meeting is to be implemented, as well as to establish the terms and conditions thereof as to all matters not provided for by the shareholders at the general meeting, all upon the terms established in section 297.1.a) of the Spanish Capital Corporations Law. This includes, without limitation, the decision on the items to which the Increase will be charged.

Notwithstanding the foregoing, if the board of directors, after taking into account the market conditions, among other matters, does not consider it advisable to carry out the Capital Increase, it will be entitled to decide not to carry out such Increase, in which case it shall report such decision to the shareholders at the next ordinary general meeting. The Capital Increase shall be null and void if the board of directors does not exercise the powers delegated thereto within the one-year period established by the shareholders for implementation of the resolution. In any event, the board's current intention is to implement the Capital Increase as reported to the market on 29 July 2020.

When the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, decides to implement the Capital Increase and establishes all the final terms and conditions thereof not already established by the shareholders at the general meeting, the Bank will make those terms and conditions public. In particular, prior to the beginning of the period for trading the bonus share

rights, the Bank will make publicly available a document containing information on the number and nature of the shares and the reasons for the Increase, all in accordance with article 1.5.g) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

Upon completion of the bonus share rights trading period:

- (a) The new shares will be allotted to the holders of bonus share rights in the corresponding proportion. The Bank may establish such mechanisms as it deems appropriate to allow and carry out the sale by the shareholders of their bonus share rights if the number thereof is less than the number required to receive one new share, which may consist of the acquisition of such rights by the Bank or on its behalf, or the sale of the rights on the market, with the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, being authorised to take the necessary measures to this end.
- (b) The board of directors, or the executive committee by delegation therefrom or any director with delegated powers will declare the bonus share rights trading period closed and will reflect in the Bank's accounts the application of reserves in the amount of the Capital Increase, which will thus be paid up.

Finally, the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers will adopt the corresponding resolutions amending the Bylaws in order to reflect the new amount of share capital resulting from the Capital Increase and applying for admission to listing of the new shares.

7. Admission to listing of the new shares

The Bank will apply for the admission to trading of the new shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Automated Quotation System (*Mercado Continuo*), and will take the necessary steps and actions before the competent authorities of the foreign Stock Exchanges on which Banco Santander's shares are listed from time to time in order for the new shares issued through the Increase to be admitted to trading.

III. PROPOSED RESOLUTIONS TO BE SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL MEETING

The full text of the proposed approvals of the balance sheet of Banco Santander for purposes of the Capital Increase and of the Capital Increase resolution that are submitted

to the shareholders at the ordinary general shareholders' meeting under items Three A and Three B, respectively, on the agenda is as follows⁵:

“Three A. Approval of the balance sheet of Banco Santander, S.A. as at 30 June 2020.

To approve the balance sheet of Banco Santander, S.A. as at 30 June 2020 and verified by the Company's auditor, for purposes of compliance with the requirement of section 303.2 of the Spanish Capital Corporations Law regarding the capital increase with a charge to reserves submitted for the approval of the shareholders at the ordinary general meeting under item Three B on the agenda.”

“Three B.- Increase in share capital with a charge to reserves

1.- Capital increase

It is hereby resolved to increase the share capital by the amount that results from multiplying (a) the par value of one-half (0.5) euro per share of Banco Santander, S.A. (“Banco Santander” or the “Bank”) by (b) the determinable number of new shares of Banco Santander resulting from the formula set forth under section 2 below (the “New Shares”).

The capital increase is carried out through the issuance and flotation of the New Shares, which shall be ordinary shares with a par value of one-half (0.5) euro each, of the same class and series as those currently outstanding, represented in book-entry form.

The capital increase is entirely charged to reserves of the type contemplated in section 303.1 of the Spanish Capital Corporations Law.

The New Shares are issued at par value, i.e. for their par value of one-half (0.5) euro, with no share premium, and shall be allotted free of charge to the shareholders of the Bank.

Pursuant to section 311 of the Spanish Capital Corporations Law, provision is made for the possibility of less than full allotment.

2.- New Shares to be issued

The number of New Shares will be obtained by applying the following formula, rounded down to the nearest whole number:

$$\text{NNS} = \text{TNShrs} / \text{Num. rights}$$

where,

NNS = Number of New Shares to be issued;

⁵ Each of the proposals made under items Three A and Three B will be submitted to a separate vote.

TNShrs = Number of Banco Santander shares outstanding on the date the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, resolves to implement the capital increase; and

Num. rights = Number of bonus share rights needed for the allotment of one New Share, which number will be obtained by applying the following formula, rounded up to the nearest whole number:

$$\text{Num. rights} = \text{TNShrs} / \text{Provisional num. shares}$$

where,

$$\text{Provisional num. shares} = \text{Market Value of the Shares} / \text{ListPri.}$$

For the purposes hereof:

“Market Value of the Shares” is the market value of the capital increase, which shall be determined by the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, with a maximum limit of 1,800 million euros, based on the number of outstanding shares (i.e. TNShrs) and the listing price of the shares of Banco Santander (ListPri) in order for the underlying value of the bonus share right at the time of implementation of the capital increase calculated based on the ListPri to be approximately 0.10 euro per share (or the highest lower amount taking into account the abovementioned limit).

“ListPri” is the closing price of the Bank’s shares on the Spanish Stock Exchanges in the last trading session ended prior to the resolution of the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, to carry out the capital increase, rounded to the nearest one-thousandth of a euro and, in case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth.

3.- Bonus share rights

Each outstanding share of the Bank shall grant its holder one bonus share right.

The number of bonus share rights needed to receive one New Share shall be automatically determined according to the proportion existing between the number of New Shares and the number of outstanding shares (TNShrs). Specifically, shareholders will be entitled to receive one New Share for as many bonus share rights held by them, determined in accordance with section 2 above (Num. rights).

The holders of debentures or instruments convertible into shares of Banco Santander shall have no bonus share rights; however, if applicable, they will be entitled to a modification of the ratio for conversion of debentures into shares (or of the minimum and/or maximum limits of such ratio, when the ratio is variable), in proportion to the amount of the increase.

In the event that (i) the number of bonus share rights needed for the allotment of one share (Num. rights) multiplied by the New Shares (NNS) is lower than (ii) the number of outstanding shares (TNShrs), Banco Santander, or a company of its Group, shall waive a number of bonus share rights equal to the difference between the two figures, for the sole purpose of having a whole number of New Shares and not a fraction.

The bonus share rights shall be allotted to the shareholders of Banco Santander who have acquired their respective shares and appear as such in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) on the corresponding date in accordance with the applicable rules for clearing and settlement of securities. During the bonus share rights trading period, a sufficient number of bonus share rights may be acquired on the market, in the proportion needed to subscribe for New Shares. The bonus share rights may be traded on the market for the term determined by the board of directors or, by delegation therefrom, the executive committee or a director with delegated powers, subject to a minimum term of fifteen calendar days (unless applicable legal provisions provide for a different minimum period, in which case such period will be used).

4.- Balance sheet for the transaction and reserve to which the increase will be charged

The balance sheet used for purposes of this capital increase is the balance sheet as at 30 June 2020, duly audited and approved by the shareholders at this ordinary general shareholders' meeting.

As mentioned above, the capital increase shall be charged in its entirety to reserves of the type contemplated in section 303.1 of the Spanish Capital Corporations Law. Upon implementation of the increase, the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers, shall determine the reserve to be used and the amount thereof in accordance with the balance sheet used for the transaction.

5.- Representation of the new shares

The shares to be issued shall be represented in book-entry form and the relevant records shall be kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) and its participants.

6.- Rights of the new shares

The new shares shall confer the same economic, voting and related rights upon their holders as the currently outstanding ordinary shares of Banco Santander as from the time at which the capital increase is declared to have been subscribed and paid up.

7.- Shares on deposit

Once the bonus share rights trading period has ended, the New Shares that it has not been possible to allot for reasons not attributable to Banco Santander shall be held on deposit and shall be available to those who evidence lawful ownership of the respective bonus share rights. Three years after the date of expiration of the bonus share rights trading period, the shares that have still to be allotted may be sold as provided in section 117 of the Spanish Capital Corporations Law, for the account and at the risk of the interested parties. The net proceeds from the sale shall be deposited with the Bank of Spain or with the General Deposit Bank (*Caja General de Depósitos*) and shall be at the disposal of the interested parties.

8.- Application for admission to official trading

It is hereby resolved to apply for the trading of the New Shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Automated Quotation System (*Mercado Continuo*), as well as to take the steps and actions that may be necessary and file the required documents with the competent authorities of the foreign Stock Exchanges on which Banco Santander shares are from time to time listed, for the New Shares issued under this capital increase to be admitted to trading, expressly stating Banco Santander's submission to such rules as may now be in force or hereafter be issued on stock exchange matters and, especially, on trading, continued listing and delisting.

It is expressly stated for the record that, if the delisting of the Banco Santander shares is subsequently requested, the delisting resolution shall be adopted with the same formalities that may be applicable and, in such event, the interests of shareholders opposing or not voting on the delisting resolution shall be safeguarded in compliance with the requirements established in the Spanish Capital Corporations Law and related provisions, all in accordance with the provisions of the restated text of the Securities Market Law (*Ley del Mercado de Valores*) and its implementing provisions in force at any time.

9.- Implementation of the capital increase

Within one year of the date of this resolution, the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers may resolve to carry out the capital increase and set the terms and conditions thereof as to all matters not provided for in this resolution. However, if the board of directors does not consider it advisable to carry out the capital increase, it may decide not to do so and shall report such decision to the shareholders at the first ordinary general meeting held thereafter. In particular, in deciding to implement the increase, the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers shall analyse and take into account market conditions, among other issues, and in the case that it deems it advisable based on such conditions or other elements, it may decide not to implement

the increase, reporting such decision to the shareholders at the general meeting on the aforementioned terms. The capital increase to which this resolution refers shall be null and void if the board of directors or, by delegation therefrom, the executive committee or directors with delegated powers, do not exercise the powers delegated thereto within the one-year period set by the shareholders at the meeting for implementation of the resolution.

Upon completion of the bonus share rights trading period:

- (a) The New Shares shall be allotted to those who, in accordance with the book-entry records of Iberclear and its participants, are holders of bonus share rights in the proportion resulting from section 3 above. Banco Santander may establish such mechanisms as it deems appropriate to allow and carry out the sale by the shareholders of their bonus share rights if the number thereof is less than the number required to receive one new share, which may consist of the acquisition of such rights by Banco Santander or on its behalf, or the sale of the rights on the market, with the board of directors or, by delegation therefrom, the executive committee or any director with delegated powers being authorised to take the necessary measures to this end.
- (b) The board of directors or, by delegation therefrom, the executive committee or any director with delegated powers shall declare the bonus share rights trading period closed and shall reflect in the Bank's accounts the application of reserves in the amount of the capital increase, which will thus be paid up.

Likewise, upon conclusion of the bonus share rights trading period, the board of directors, or the executive committee by delegation therefrom or any director with delegated powers shall adopt the relevant resolutions amending the Bylaws in order to reflect the new amount of share capital resulting from the capital increase and applying for admission to listing of the new shares on the Spanish and foreign Stock Exchanges on which the shares of the Bank are listed.

10.- Delegation for purposes of implementation

Pursuant to the provisions of section 297.1.a) of the Spanish Capital Corporations Law, it is hereby resolved to delegate to the board of directors the power to establish the terms and conditions of the capital increase as to all matters not provided for in this resolution. Specifically, and by way of example only, the following powers are delegated to the board of directors:

- 1.- To determine, within one year as from approval thereof, the date on which the resolution so adopted to increase the share capital is to be implemented, and to set the Market Value of the Shares, the reserves to which the capital increase is to be charged from among those provided for in the resolution, the record date and time for the allotment of the bonus share rights, and the duration of the bonus share rights

trading period, and to adopt any mechanisms it deems appropriate to allow and carry out the sale by the shareholders of their bonus share rights if the number of such rights is less than required to receive one new share.

- 2.- To determine the exact amount of the capital increase, the number of New Shares and the bonus share rights needed for the allotment of New Shares in accordance with the rules established by the shareholders at this meeting.
- 3.- To declare the capital increase to be closed and implemented.
- 4.- To amend sections 1 and 2 of article 5 of Banco Santander's Bylaws regarding share capital to conform it to the result of the implementation of the capital increase.
- 5.- To carry out all formalities that may be necessary to have the New Shares issued in the capital increase registered in the book-entry records of Iberclear and admitted to listing on the domestic and foreign Stock Exchanges on which the shares of the Bank are listed, in accordance with the procedures established at each of such Stock Exchanges.
- 6.- To take such actions as may be necessary or appropriate to implement and formalise the capital increase before any public or private, Spanish or foreign authorities or agencies, including actions for purposes of statement, supplementation or correction of defects or omissions that might prevent or hinder the full effectiveness of the preceding resolutions.

The board of directors is also authorised to delegate (with the power of substitution when so appropriate) to the executive committee or to any director with delegated powers those delegable powers granted pursuant to this resolution, all without prejudice to the representative powers that currently exist or may be granted in relation to this resolution."

In consideration of the foregoing, the shareholders are requested to approve the proposals submitted by the board of directors.

Item Four.- Conditional distribution of the gross fixed amount of 10 euro cents (0.10) per share with a charge to the Share Premium Reserve. Delegation of powers to the board of directors, which may in turn delegate such powers to the executive committee, to: establish the terms and conditions of the distribution as to all matters not provided for by the shareholders at this general meeting; take such actions as may be required for implementation thereof; and to execute such public and private documents as may be necessary to implement the resolution.

RATIONALE SUBMITTED BY THE BOARD OF DIRECTORS OF BANCO SANTANDER, S.A. REGARDING THE PROPOSAL REFERRED TO IN ITEM FOUR ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 26 OCTOBER 2020, ON FIRST CALL, AND FOR 27 OCTOBER 2020, ON SECOND CALL

On 27 March 2020 the European Central Bank (ECB) issued a recommendation in which it asked all European credit institutions under its supervision to refrain, at least until 1 October 2020, from paying out dividends with a charge to the results from financial years 2019 and 2020 or to make irrevocable commitments to pay out them, in order to preserve capital ("**Recommendation I**").

Taking into account Recommendation I and in line with the Bank's mission to help people and businesses prosper, on 2 April 2020 the board of directors decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, resolving to this end, among other issues, to withdraw from the agenda for the ordinary general meeting of the following day the proposed application of results and the resolution to increase capital with a charge to reserves that must be used to implement the application of the *Santander Dividendo Elección* scrip dividend scheme apart from remuneration with a charge to said results. This deferred the decision regarding the application of results obtained by the Bank during financial year 2019, which is now submitted to the shareholders at the general meeting under item One on the agenda. The Bank reported all of the above through the corresponding notice of inside information addressed to the CNMV on that same 2 April 2020 and at the general shareholders' meeting held on 3 April 2020.

Subsequently, on 27 July 2020, the ECB issued a second recommendation to all European credit institutions under its supervision extending the effects of Recommendation I and asking them to refrain, until 1 January 2021, from paying out dividends from the results for financial years 2019 and 2020 or from entering into irrevocable commitments to pay out them ("**Recommendation II**").

On 29 July, the board of directors stated that intends to apply a 100% cash dividend policy as soon as market conditions normalise, subject to regulatory recommendation and

approvals. Therefore, the Bank has reserved six basis points of CET1 capital during the quarter ended 30 June 2020 for a possible cash dividend with a charge to 2020 results. For its part, at the beginning of 2020 the Bank had already announced its intention to distribute between 40% and 50% of consolidated ordinary profit to the shareholders.

Within this context, the proposed distribution from the Share Premium Reserve is consistent with the goal of paying shareholders between 40% and 50% of consolidated ordinary (underlying) profit, and to do so in cash. In this way, subject to the conditions explained in the proposal and that basically refer to the lack of regulatory regulations or recommendations that prevent or discourage the distribution thereof, as is the case now, and to maintenance of a fully loaded CET1 ratio of not less than 11% as a result of the distribution, the proposal to charge it against the Share Premium Reserve allows for assurance that such distribution can be implemented under those conditions, even if the profit was lower than the ordinary or underlying profit.

For the purposes of section 411 of the Spanish Capital Corporations Law and in accordance with the first additional provision of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, it is stated for the record that, as the Bank is a credit institution and the requirements set out in the abovementioned additional provision are met, the consent of the bondholder syndicates (*sindicatos de obligacionistas*) of the outstanding debentures and bond issues is not required for the proposed distribution with a charge to the Share Premium Reserve.

Proposal:

To approve a distribution from the Share Premium Reserve, by paying each of the Bank's outstanding shares with the right to participate in such distribution on the date of payment, the gross fixed amount of 0.10 euro per share, making the corresponding charge to the aforementioned Share Premium Reserve. The payment of the abovementioned amount is subject to the following limits and conditions:

- (a) obtaining the regulatory approval provided for in Article 77.1.b) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms;
- (b) the consolidated fully loaded common equity tier 1 ("CET1") ratio of the Santander Group at 31 December 2020 not being less than 11% as a result of the distribution (if made on said date) and according to legal provisions then in effect;
- (c) that the total amount to be paid does not exceed 50% of the consolidated underlying attributable profit to Banco Santander, S.A. as parent company (prior to the line "net of capital gains and allowances"), corresponding to financial year 2020, reported to

the market at the presentation of results for financial year 2020, which will take place in the first weeks of 2021; and

- (d) that there is no regulation or recommendation of the European Central Bank prohibiting or discouraging the approved payment on the date on which the payment is to occur.

If all of the conditions cannot be met, the amount per share will be proportionally reduced to the extent strictly necessary to simultaneously comply with all of them. If this requirement of simultaneous compliance and proportional reduction of the amount to be distributed prevents any payment from being made, there will be no distribution of the Share Premium Reserve.

Likewise, and in view of the foregoing, once the existing regulatory requirements and demands have been weighed in accordance with the foregoing and compliance with the conditions outlined above has been verified upon the terms provided, the board of directors will specify the date on which the payment is to be made, which must be announced to the public at least 7 days in advance and which may not in any case be later than 30 June 2021.

The payment will be made through the participants in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (IBERCLEAR).

The board of directors is also authorised to delegate (with the power of substitution when so appropriate) to the executive committee or to any director with delegated powers those delegable powers granted pursuant to this resolution, all without prejudice to the representative powers that currently exist or may be granted in relation to this resolution. Said authorisation also includes all powers necessary for the execution of this agreement, including the development of the procedure set out herein, as well as the powers necessary or appropriate for carrying out any formalities or steps needed to successfully implement the transaction.

Item Five.- Authorisation to the board of directors to interpret, remedy, supplement, implement and develop the resolutions approved by the shareholders at the meeting, as well as to delegate the powers received from the shareholders at the meeting, and grant of powers to convert such resolutions into notarial instruments.

Proposal:

Without prejudice to the delegations of powers contained in the preceding resolutions, it is hereby resolved:

A) To authorise the board of directors to interpret, remedy, supplement, carry out and further develop the preceding resolutions, including the adjustment thereof to conform to verbal or written evaluations of the Commercial Registry or of any other authorities, officials or institutions which are competent to do so, as well as to comply with any requirements that may legally need to be satisfied for the effectiveness thereof, and in particular, to delegate to the executive committee or to any director with delegated powers all or any of the powers received from the shareholders at this general shareholders' meeting by virtue of the preceding resolutions as well as under this Resolution Five.

B) To authorise Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr José Antonio Álvarez Álvarez, Mr Jaime Pérez Renovales and Mr Óscar García Maceiras so that any of them, acting severally and without prejudice to any other existing power of attorney whereby authority is granted to record the corporate resolutions in a public instrument, may appear before a Notary Public and execute, on behalf of the Bank, any public instruments that may be required or appropriate in connection with the resolutions adopted by the shareholders at this general shareholders' meeting. Said persons are also authorised, on the same several basis, to inform the Commercial Registry of the proposed application of results that is ultimately approved.