SECURITIES NOTE AND SUMMARY FOR THE CAPITAL INCREASE WITH PRE-EMPTIVE SUBSCRIPTION RIGHTS BY BANCO SANTANDER, S.A.

Annexes III and XXII of Commission Regulation (EC) No 809/2004 of 29 April 2004

This Securities Note and Summary was approved and registered in the Official Registries of the Spanish Securities Market Commission (CNMV) on 4 July 2017 and is completed by the Registration Document of Banco Santander, S.A., drawn up in accordance with Annex I of Commission Regulation (EC) No 809/2004 of 29 April 2004, approved and registered in the official registry of the Spanish Securities Market Commission on the same date.

IMPORTANT DISCLOSURE

TERRITORIAL RESTRICTIONS

GENERAL

This Securities Note does not constitute an offer of sale or an offer to buy any security. Securities will not be sold in any jurisdiction in which it is illegal to carry out such an offering, request or sale before registration or assessment is obtained under the securities laws of that jurisdiction.

Some considerations to be taken into account with regard to the offering under this Securities Note in certain jurisdictions are set out briefly below.

SPAIN, ITALY, POLAND, PORTUGAL AND THE UNITED KINGDOM

This Securities Note and the Summary have been registered in the official registries of the Spanish Securities Market Commission ("CNMV"), which is the competent authority in Spain. Banco Santander, S.A. ("Banco Santander") has asked the CNMV to provide a certificate of this approval and a copy of this Securities Note and the Summary, with the Share Registration Document of Banco Santander, S.A. registered in the official registries of the CNMV on 4 July 2017 (the "Share Registration Document"), to the competent authorities of Italy, Poland and the United Kingdom, pursuant to applicable laws on the regime for cross-border prospectuses established in Spanish legislation and in the regulations of the aforementioned jurisdictions implementing Directive 2003/71/EC of the European Parliament and of the Council, on the prospectus to be published when securities are offered to the public or admitted to trading.

Consequently, in accordance with these regulations, the capital increase through the issue of new shares in Banco Santander, which is the object of this Securities Note, shall be carried out in Spain, Italy, Poland, Portugal and the United Kingdom. However, the new shares of Banco Santander issued in this Capital Increase cannot be offered in the United Kingdom until this Securities Document, together with the Share Registration Document, is recognised in the UK, as provided for under section 87H of the Financial Services and Markets Act 2000.

Investors residing in Spain, Italy, Poland, Portugal and the United Kingdom will be able to get a copy of this Securities Note, and the Share Registration Form, in both Spanish and English, and the Summary in Spanish, English, Italian, Polish and Portuguese, at www.santander.com. The reference to this website, however, is not taken to be an addition to this Securities Note, or to refer to any information other than that set out herein.

Investors residing in Portugal will be able to get a copy of this Securities Note, together with the Share Registration Document in English and the Summary in Portuguese, through the information system on the website of the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) (www.cmvm.pt), on the Euronext website (www.euronext.com) and at the registered offices of Banco Santander Totta, S.A.

UNITED STATES OF AMERICA

Banco Santander is making the same offering to all ordinary shareholders of Banco Santander who reside in the United States of America (the "Shareholders of the United States" and the "United States Offering", respectively) in accordance with the separate document for the United States of America (*Registration Statement on Form F-3*). This includes the Prospectus complemented by the Prospectus Supplement . These will be referred to jointly as the "United States Prospectus". The terms and conditions of the Capital Increase and the United States Offering are identical.

This document will not be distributed in the United States of America. Offerings and sales outside the United States of America are conducted in accordance with Regulation S of the amended US Securities Act of 1933 (the "United States Securities Act"). Offerings and sales of pre-emptive subscription rights and new shares to United States Shareholders and investors residing in the United States of America are regulated in the United States Prospectus. Offerings and sales of pre-emptive subscription rights and new shares outside the United States of America are not included in the United States Prospectus. United States Shareholders and investors residing in the United States of America are recommended to examine the United States Prospectus carefully (including the documents which are added to it by reference) and to seek independent advice, if deemed relevant, before acquiring pre-emptive subscription rights or subscribing to new shares in the United States Offering. This document has not been filed at the U.S. Securities and Exchange Commission and should not be construed to be an offering or an invitation to buy shares in the United States of America. Copies of this document may not be sent to, disclosed or distributed in the United States of America or to United States Shareholders or to investors residing in the United States of America in any way. It will be understood that each investor who acquires pre-emptive subscription rights or new shares in the capital increase in

accordance with this document has stated and guaranteed that it has acquired such pre-emptive subscription rights or new shares, as the case may be, in an "Offshore Transaction", as defined in Regulation S of the US Securities Act.

ARGENTINA

Authorisation will be sought from the Securities Market Commission of the Argentinean Republic to make a public offering of new shares in Banco Santander, which is the object of this Securities Note, pursuant to applicable laws. Once the authorisation for a public offering in Argentina is granted, investors will be able to subscribe the new shares. The new shares can be subscribed through Caja de Valores S.A. or agents authorised for that purpose under the laws of Argentina. Any subscription of new shares in Argentina must be in Spanish, as provided for under the regulations of the Securities Market Commission of the Argentinean Republic, and under the terms and conditions set forth in a Notice of Subscription which will be published in the Official Gazette of the Buenos Aires Stock Market and a widely circulated newspaper in Argentina.

This Securities Note is distributed solely for information. This Securities Note must not be construed to be an offer to sell, or an invitation to make an offer to buy, nor can acquisitions or sales of the marketable securities referred to herein be effected until the public offering has been authorised by the Securities Market Commission of the Republic of Argentina. That authorisation will only mean that the document has fulfilled the information requirements. The Securities Market Commission of the Republic of Argentina will not give any opinion on the information set out in this Securities Note. Banco Santander alone is responsible for the accuracy of the accounting, financial and economic information, and any other information provided, in this Securities Note. Banco Santander solemnly swears that this Securities Note contains, on its publication date, accurate and sufficient information about any material facts which could affect the capital, and economic and financial situation of Banco Santander, and any information that must be known by the investment community in relation to this issue of new shares, as provided for under applicable laws.

BRAZIL

This Securities Note (i) must not be construed in any way to be a request to buy or to sell securities or any related financial instruments in Brazil, and (ii) must not be construed in any way to be a public offering of securities in Brazil. The Brazilian Securities Commission (Comissão de Valores Mobiliários) has not authorised the public offering of New Shares. Hence, the New Shares cannot be offered to the public in Brazil. No action has been taken which could be construed that this offer could be considered to be a public offering or sale of securities in Brazil.

MEXICO

The New Shares (as this term is defined in this Securities Note) can be subscribed and paid for by shareholders of Banco Santander in Mexico who comply with the terms of the Pre-emptive Subscription Rights Notice that will be published in Mexico. The National Banking and Securities Commission of Mexico (Comisión Nacional Bancaria y de Valores de México) has not authorised, nor has it requested authorisation for, the public offering of New Shares. Hence, the New Shares cannot be offered to the public in Mexico. However, Banco Santander, either directly, or through brokers, will be able to offer Discretionary Allocation Shares (according to the definition of this term in this Securities Note) to investors who are classified as qualified and institutional investors in Mexico, through a private offering, as provided for under Article 8 of the Mexican Securities Market Act.

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I. SUMMARY

The Summary consists of disclosures that are presented to comply with information publication requirements, known as "**Elements**". These Elements are listed in Sections A – E (A.1 – E.7) (the "**Summary**").

This Summary contains all of the Elements required to be included in such a summary, considering the nature of the securities and the issuer. Given that some of the Elements do not need to be included in the Summary, the numbering of the Elements may not match that of the Summary.

Even if a certain Element has to be included in the Summary because of the type of security and issuer, it is possible that there may be no relevant information to provide for that Element. In that case, "not applicable" is entered in that section of the Summary.

Section A – Introduction and warnings

Element	Disclosure requirement
A.1	**Warning:** • This Summary should be read as an introduction to the "**Prospectus**" (which consists of the Registration Document of Banco Santander, S.A. –"**Banco Santander**" or the "**Bank**"– and the Securities Note registered in the official registries of the Spanish Securities Market Commission on 4 July de 2017). • Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. • Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiate. • Civil liability attaches only to those persons who have tabled the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus, or does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in those securities.
A.2	**Consent by the issuer for subsequent resale or final placement of securities by financial intermediaries** Not applicable. The Bank has not given its consent to any financial intermediary for the use of the Prospectus in the subsequent sale or final placement of securities.

Section B – Issuer and any guarantor

Element	Disclosure requirements
B.1	**The legal and commercial name of the issuer** The legal name of the issuer is Banco Santander, S.A. Its commercial name is Banco Santander or Santander. Its Tax Number is A-39000013 and its Legal Entity Identifier is 5493006QMFDDMYWIAM13.
B.2	**The domicile and legal form of the issuer, the legislation under which the issuer operates and country of incorporation** The registered offices of the Bank are in Spain, at Paseo de Pereda nº 9-12, Santander, and its country of incorporation is the Kingdom of Spain. It is registered with the Companies Registry of Cantabria, on sheet 286, page 64, book 5 of Corporations, entry 1. Banco Santander is a joint-stock company and its shares are currently listed on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Spanish Electronic Stock Market Interconnection System (Continuous Market) (the "**Spanish Stock Exchanges**") and, abroad, on the Stock Exchanges of Lisbon, London − through Crest Depositary Interests ("**CDIs**")−, Milan, Buenos Aires, Mexico, Warsaw, New York − through American Depositary Shares ("**ADSs**")− and São Paulo − through the Brazilian Depositary Receipts ("**BDRs**"). Its activity is subject to special laws on credit institutions and its actions are supervised and controlled by the Single Supervisory Mechanism, (and the European Central Bank in particular) and the

	Spanish Securities Market Commission.
B.3	**A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.** Banco Santander carries out a broad and diverse range of business activities, focused primarily on retail and commercial banking. The Bank divides its operating business areas into two tiers: (a) core or geographical (Continental Europe, United Kingdom, Latin America and the USA) and (b) secondary (Commercial Banking, Santander Global Corporate Banking (SGCB) and Real Estate Activities in Spain) and the Corporate Centre. The continental Europe area encompasses all the activities carried out in the region, except for the United Kingdom, and the Spain Real Estate unit. The Latin America area covers all financial activities which the Santander Group (the "**Santander Group**" or the "**Group**") engages in across the region through its banks and subsidiaries. Santander in the United States includes Santander Holdings USA, which acts as its Intermediate Holding Company (IHC), and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as the New York branch. The Corporate Centre area encompasses the centralised management businesses relating to financial and industrial investments, the financial management of the structural currency position, as well as the management of liquidity and equity through issuances. The activities of the operating units are divided by type of business, into Commercial Banking, Santander Global Corporate Banking (SGCB) and the Spain Real Estate business. Commercial Banking comprises all of the customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SGCB. Also included in this business segment are the results of the hedging positions taken in each country within the scope of the Asset and Liability Management Committee. The Santander Global Corporate Banking (SGCB) business reflects the income from global corporate banking, investment banking and markets businesses worldwide, including the globally-managed treasury departments (after passing the appropriate share to Commercial Banking customers), along with the equities business. The Group also has its Corporate Centre, the area which encompasses the centralised management businesses relating to financial investments, the financial management of the structural currency position, taken from within the scope of the Group's corporate Asset and Liability Management Committee, as well as the management of liquidity and equity through issuances. As the Group's holding unit, Banco Santander handles total capital and reserves, capital allocations and liquidity with the rest of the businesses. The recovery part incorporates provisions of different types and amortisation of goodwill. The costs do not include the expenses related to the Group's central services, which are charged to the different areas, with the exception of corporate and institutional expenses related to the Group's functioning. The Group has a number of support units, such as Risks; Compliance; Internal Audit; Chairman's Office and Strategy; Strategy; Santander Digital; Universities; Communication, Corporate Marketing and Research; General Secretary's Office and Human Resources; Technology and Operations; Controller's Office and Management Control; Financial Management and Investor Relations; Corporate Development and Financial Planning; and Costs.
B.4.a	**A description of the most significant recent trends affecting the issuer and the industries in which it operates** In the first quarter of 2017, the Santander Group carried out its business activities against a more benign background than in previous quarters, in fact all the regions in which it operates enjoyed positive outlook for economic growth, something which has not happened for some time. Growth is picking up in developed economies, while, within emerging economies, there are signs of improved economic activity in Latin American countries, particularly in Brazil and Argentina. Interest rates have begun to rise in the United States, although in most developed economies interest rates are still at all-time lows. In particular, looking at the countries where the Bank operates, growth in the United States has been moderate, although the labour market is close to full employment, confidence is high and inflation is within the target range. The Federal Reserve recently increased the Federal funding rate by 25 basis points. The United Kingdom economy has proven to be especially resilient amidst uncertainties, although quarter-on-

	quarter growth was weaker in the first quarter of 2017 (0.2% vs. 0.7% in the fourth quarter of 2016) due to a disappointing performance by the consumer services sector. In April, inflation stood at 2.7%, showing a strong upward trend. The unemployment rate stands at 4.6% (very close to the long-term equilibrium level). In the Eurozone, the more confident tone among economic agents is reflecting higher economic growth, which stood at 1.9% year-on-year in the first quarter of 2017. Inflation rose to 2% in February, but fell back to 1.5% in March. The European Central Bank has kept its monetary policy unaltered. Economic growth in Spain remains buoyant, underpinned by domestic demand and a strong trend in exports. In the first quarter of 2017, GDP rose by 3% year-on-year, with more and more jobs are being created, prompting a sustained fall in the unemployment rate, which stood at 18.8% in the first quarter of 2017. In Portugal, the economy showed further buoyancy in the first quarter of 2017. GDP rose by 2.8% driven by consumption, investment and exports. In April, inflation registered an increase of 2.4% year-on-year, with a sharp upward trend. The public deficit stood at 2% of GDP for 2016, showing that Portugal has put its former situation of excessive public deficits behind it. Poland reported sharp growth in GDP in the first quarter of 2017, up by 4% year-on-year, fuelled mainly by private consumption. Against this background of high growth, inflation has again been kept in check (1.9% in May), and as there are no signs of underlying inflationary pressures, the central bank is not expected to change interest rates over the next few months (1.5%). In Brazil, the central bank applied another cut to the SELIC rate in the quarter, taking it to 12.25% in March. Inflation slowed to 4.6% in March (6.3% at the close of 2016). The Brazilian real has remained firm in the quarter, and has strengthened 2.9% against the dollar and 1.5% against the euro. In Mexico, inflation rose to 5.4% in March 2017, driven by the liberalisation of fuel prices and the delayed effects of depreciation of the peso. The central bank raised the benchmark rate to 6.50% (5.75% at the close of 2016). The peso strengthened by 10.3% against the dollar in the quarter (8.8% vs. the euro), taking it back to its levels before the US elections. In Chile, inflation stands at below 3% (2.7% in March 2017). The central bank of Chile cut its official rate to 3.0% in March and has applied further cuts since then. In the first quarter, the peso strengthened by 1.0% against the dollar and depreciated by 0.4% against the euro. In Argentina, economic policies are still focused on correcting macro imbalances and reinforcing the foreign trade position. Inflation has steadied at rates of around 2% month-on-month, and economic activity rose 0.1% in the first quarter of 2017, leaving behind the fall in 2016 (-2.3%).
B.5	**If the issuer is part of a group, a brief description of the group and of the issuer's position within the group** Banco Santander, S.A. is the parent company of the Santander Group. As of 31 December 2016, the Group comprised 715 subsidiaries of Banco Santander, S.A. There are also another 183 companies which are associated companies of the Group, multi-group companies or stock-exchange listed companies in which the Group has an interest of more than 5% (these do not include subsidiaries or those of insignificant interest from the standpoint of the true and fair view that must be presented in the consolidated annual statements). After the acquisition of Banco Popular Español, S.A. ("**Banco Popular**") on 7 June 2017, it is important to note that in addition to the above, on 31 December 2016, the group of which Banco Popular Español is the parent comprised 117 companies, 86 of which were subsidiaries of Banco Popular Español, and 30 of which were associated companies of the group or multi-group companies, according to the audited consolidated financial statements at that date.
B.6	**In so far as is known to the issuer, the name of any person who, directly or indirectly, has an interest in the issuer's capital or voting rights which is notifiable under the issuer's national law, and declaring whether the issuer is directly or indirectly owned by or under the control of a third party and, if so, by whom. Describe the nature of such control.** At 30 June 2017, the only shareholders in the Bank's shareholder register with a stake exceeding 3% were State Street Bank & Trust Company with 13.93%; The Bank of New York Mellon Corporation, with 9.14%; Chase Nominees Limited, with 6.87%; and EC Nominees Limited, with 4.08%. However, the Bank believes that such shares are held in custody on behalf of third parties, and to the Bank's knowledge, none of these third parties hold an interest of over 3% of the share capital or voting rights of the Bank. At 30 June 2017, the Bank's shareholder register had no record of shareholders resident in tax havens with an interest of over 1% of the share capital. At 30 June 2017, the Bank is not aware of any other shareholder who has a number of shares

that would allow it to appoint a director, pursuant to Article 243.1 of the Companies Law (*Ley de Sociedades de Capital*). This is the standard used to determine whether a shareholder has significant influence over Banco Santander.

Directors

The interests directly and indirectly held by the members of the board of directors of Banco Santander at 4 July 2017 were as follows:

Director	Direct interest	Indirect interest	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	828,828	17,602,582	18,431,410(1)
Mr. José Antonio Álvarez Álvarez	834,604	-	834,604
Mr. Bruce Carnegie-Brown	20,099	-	20,099
Mr. Rodrigo Echenique Gordillo	905,773	14,184	919,957
Mr. Matías Rodríguez Inciarte	1,621,683	308,163	1,929,846
Mr. Guillermo de la Dehesa Romero	162	-	162
Ms. Homaira Akbari	22,000	-	22,000
Mr. Ignacio Benjumea Cabeza de Vaca	3,148,832	-	3,148,832
Mr. Javier Botín-Sanz de Sautuola y O'Shea	4,793,481	50,420,232	55,213,713 (1)(2)
Ms. Soledad Daurella Comadrán	128,269	412,521	540,790
Mr. Carlos Fernández González	16,840,455	1	16,840,456
Ms. Esther Giménez-Salinas i Colomer	5,405	-	5,405
Ms. Belén Romana García	150	-	150
Ms. Isabel Tocino Biscarolasaga	270,585	-	270,585
Mr. Juan Miguel Villar Mir	1,199	-	1,199

(1) Syndicated shares by virtue of a shareholder agreement signed in February 2006 (duly communicated to the Bank and the Spanish Securities Market Commission and lodged in the registry of that supervisory body and in the Mercantile Registry of Cantabria) by Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Mr. Francisco Javier Botín- Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A., Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L.U., providing for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

(2) The above participation of Mr. Javier Botín-Sanz de Sautuola y O'Shea, Chairman of the Fundación Botín and of the shareholder trust, includes all the shares held by that shareholder trust, except those held directly and indirectly by Ms. Ana Botín-Sanz de Sautuola y O´Shea (18,431,410 shares), which, while still forming part of that trust, are itemised individually for information purposes.

All the shareholders of Banco Santander possess the same voting rights per share.

Banco Santander is not directly or indirectly under the control of any entity.

Treasury shares

The Bank holds 13,244 direct treasury shares, representing 0.00001% of share capital at 3 of July 2017, and at 30 of June 2017 holds 4,750,200 indirect treasury shares through subsidiaries, accounting for 0.029% of share capital.

B.7 **Selected historical key financial information, under EU-IFRS, regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period, accompanied by comparative data from the same period in the previous financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information.**

The key items for the Santander Group for the years ended on 31 December 2016, 2015 and 2014 are indicated below.

			Change		
	2016	2015(*)	Absolute	%	2014(*)

Balance sheet (millions of euros)					
Total assets	1,339,125	1.340,260	(1,135)	(0,1)%	1,266,296
Loans and advances to customers (net)	790,470	790,848	(378)	(0.05)%	734,711
Customer deposits	691,111	683,142	7,969	1%	647,706
Own funds	90,939	88,040	2,899	3%	80,805
Income statement (millions of euros)					
Net interest income	31,089	32,812	(1,723)	(5)%	29,547
Gross income	44,232	45,895	(1,663)	(4)%	42,612
Profit before tax	10,768	9,547	1,221	13%	10,679
Consolidated profit	7,486	7,334	152	2%	6,935
Profit attributable to the Group	6,204	5,966	238	4%	5,816
Attributable profit per share (euros)	0.41	0.40	0.01	2%	0.48

			Change		
	2016	**2015(*)**	**Absolute**	**%**	**2014(*)**
Solvency and NPLs (**)					
CET1 (fully-loaded)	10.6%	10.1%			9.7%
CET1 (phase-in)	12.5%	12.6%			12.2%
Shares and capitalisation (**)					
Number of shares (millions)	14,582	14,434	148	1%	12,584
Price (euros)	4.959	4.558	0.401	9%	6.996
Market capitalisation (millions of euros)	72,314	65,792	6,521	10%	88,041
Price/tangible book value per share (times)	1.17	1.12			1.75
PER (price/earnings per share) (times)	12.18	11.30			14.59
Other figures (**)					
Number of shareholders	3,928,950	3,573,277	355,673	10%	3,240,395
Number of employees	188,492	193,863	(5,371)	(3)%	185,405
Number of branches	12,235	13,030	(795)	(6)%	12,951

(*) Unaudited information presented exclusively for comparison with the audited financial statements for the year ended December 2016. The Santander Group's consolidated financial statements for the year ended 31 December 2016 are presented in accordance with the model required under CNMV Circular 5/2015. To facilitate comparison, the financial statements and disclosures required in 2015 and 2014 have been restated in accordance with the new models, although the changes are not significant.

(**) Unaudited information.

The main figures of Santander Group at 31 March 2017 and 31 March 2016 (balance sheet) and the quarters ended on 31 March 2017 and 31 March 2016 (income statement); are shown hereafter.

			Change	
	1T'17	**1T '16**	**Absolute**	**%**
Balance sheet (millions of euros)				
Total assets	1,351,956	1,324,200	27,756	2%
Loans and advances to customers (net)	795,312	773,452	21,859	3%
Customer deposits	705,786	670,627	35,159	5%
Own funds	104,869	98,781	6,088	6%
Income statement (millions of euros)				
Net interest income	8,402	7,624	778	10%
Gross income	12,029	10,730	1,299	12%
Profit before tax	3,311	2,732	579	21%
Consolidated profit	2,186	1,922	264	14%
Profit attributable to the Group	1,867	1,633	234	14%
Attributable profit per share (euros)	0.122	0.108	0.01	13%

Solvency and NPLs (%)					
CET1 (fully-loaded)	10.66	10.27		
CET1 (phase-in)	12.12	12.36		
Non-performing loans ratio	3.74	4.33		
NPL coverage ratio	74.6	74.0		
Shares and capitalisation				
Number of shares (millions)	14,582	14,434	148	1%
Price (euros)	5.745	3.874	1.871	48%
Market capitalisation (millions of euros)	83,776	55,919	27,856	50%
Tangible book value (€)	4.26	4.07		
Price/tangible book value per share (times)	1.35	0.95		
PER (price/earnings per share) (times)	11.74	8.99		
Other figures				
Number of shareholders	3,957,838	3,682,927	274,911	7%
Number of employees	188.182	194,519	(6,337)	(3)%
Number of branches	12.117	12,962	(845)	(7)%

Note: The financial information contained in the above chart is not audited. However, it was approved by the company's Board of Directors on 25 April 2017, after a favourable report from the Audit Committee dated 19 April 2017. In its review, the Audit Committee verified that the 2017 financial information was prepared in accordance with the same principles and practices applied to the financial statements.

During the year 2014, Santander Group posted an attributable profit of EUR 5,816 million, 39.3% more than in 2013. This growth was fueled by the good evolution of the three main lines of the income statement: (i) gross income increased after falling in 2013 thanks to the growth in net interest income and net fee income; (ii) operating expenses rose by below the average inflation rate of the countries in which the Group operates, benefiting from the processes of integration (Spain and Poland) and the three-year efficiency and productivity plan launched at the end of 2013; and (iii) loan-loss provisions continued on a path of normalization and the cost of credit improved.

During the year 2015, the Group grew in volumes and profit, accumulated capital and increased the cash dividend. Santander Group posted an underlying attributable profit of €6,566 million, 13% more than in 2014. Additionally, the Group also recorded a net charge of €600 million of non-recurring positive and negative results, which left the final attributable profit 3% higher at €5,966 million.

During the year 2016, underlying profit before tax was 3% higher at €11,288 million. In constant euros, the increase was 12%, with rises in nine out of the 10 core markets. Higher tax charge, with new taxes in some units, as well as the recording of some non-recurring positive and negative results, which overall represented a charge net of taxes of €417 million (€600 million negative in 2015). As a result, Santander Group posted an attributable profit of €6,204 million, 4% more than in 2015 and 15% higher in constant euros.

During the first quarter of 2017, the Bank posted an attributable profit of EUR 1,867 million euros, 14% more than the first quarter of 2016 (10% more in constant euros). The profit before taxes increased a 21% (17% more in constant euros), up to 3,311 million euros. The ordinary business showed a solid behavior, with positive trends in all markets and a strong growth in Latin America, Spain and Santander Consumer Finance. If we strip out the effect of exchange rate, the profit increased in 9 out of the 10 core markets.

Except as indicated in the following section B.9 in relation to the Santander Group's integration of Banco Popular, from 31 March 2017 to 4 July 2017 there has not been any fact or change that may significantly influence in the financial or commercial position of Banco Santander.

B.8	**Selected key pro forma financial information, identified as such** Not applicable. The prospectus does not contain pro-forma financial information.
B.9	**Where a profit forecast or estimate is made, state the figure** Banco Santander has informed the market of the following estimates regarding its consolidated financial data for the six-month period ended on 30 June 2017. It is unaudited data which consists of estimates, and which include alternative measures of return and non-IFRS items. Such non-audited information has been approved by the corresponding bodies and reviewed by the external auditors who agreed that such information is substantially consistent with the final figures that will be published in the Santander Group's audited interim

	consolidated condensed financial statements for the six-month period ending on 30 June 2017. Estimates for Santander Group, before considering the contribution of Banco Popular: Banco Santander expects net profit attributable to the parent of approximately €3.6 billion for the six-month period ended on 30 June 2017, which represents an increase of nearly 24% over net profit attributable to the parent recorded during the six-month period ended on 30 June 2016. After excluding the non-recurring and negative impact of €248 million recorded in the six-month period ended on 30 June 2016, this increase is reduced to approximately 14% or nearly 11%, if we also exclude the positive effect of exchange rate movements. This 11% is obtained with the income increase driven by margin and commissions, a relatively lower increase in costs, which grow behind the average inflation rate of the countries in which the Group operates, and a decrease in provisions for credit losses which is consistent with the downward trend of the NPL ratio while the coverage ratio is held stable. On the balance sheet, the Group expects to report growth in net loans to customers and deposits of approximately 1% and around 3.5% respectively in the first half of the year, also excluding the impact of exchange rates. Estimation of the contribution of Banco Popular to the Santander Group: Santander Group acquired Banco Popular and its subsidiaries on 7 June 2017 and has consolidated Banco Popular in the accounts of Santander Group since such date. Hence, it does not contribute significant results between that date and up to 30 June 2017. The first estimation of the purchase price adjustments from the acquisition of Banco Popular results in immaterial goodwill in the context of the acquisition. It is estimated that Banco Popular, after the adjustments, would contribute net loans of approximately €82 billion and deposits of €65 billion, concentrated primarily in Spain, which represents approximately 10% and 8.5% of the Group totals, respectively, after Banco Popular's integration with Banco Santander. Banco Popular's NPL ratio is estimated to be approximately 20% and the coverage ratio is estimated to be around 61% after the adjustments for the acquisition. In addition, it is estimated that Banco Popular has real estate assets of approximately €17.5 billion (gross) which, after the adjustments, would be reduced to approximately €6.5 billion (net accounting value) and the resulting coverage ratio would be of approximately 63%. It is also estimated that the Group's NPL and coverage ratios after the integration of Banco Popular would be approximately 5.4% and 70%, respectively, and that the amount of its real estate assets in Spain, considering the above-mentioned adjustments of Banco Popular's assets, would be approximately €11 billion (net accounting value), with a coverage ratio of approximately 60%. The fully loaded CET1 as of 30 June would be approximately 10.7%, assuming complete subscription for the capital increase in an announced amount of €7.072 billion.
B.10	**A description of the nature of any qualifications in the audit report on the historical financial information** The audit reports were favourable, and there were no qualifications in any of these years.
B.11	**If the issuer's working capital is not sufficient for the issuer's present requirements an explanation should be included** With the information available to date, Banco Santander considers that its current working capital, together with that it expects to generate in the next twelve months, is sufficient to meet its operating requirements over that period.

Section C – Securities

Element	Disclosure requirement

C.1	**A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number** The securities issued in the capital increase (the "**Capital Increase**") are ordinary shares of Banco Santander with pre-emptive subscription rights, each with a par value of EUR 0.50, of the same class and series as those currently outstanding. Holders of these shares will have the same economic and voting rights from the date on which they are issued (the "**New Shares**"). The Spanish Securities Market Commission's National Transferable Securities Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned a provisional ISIN Code to the New Shares, until they become equivalent to the Bank's shares currently outstanding. Once the New Shares are admitted to trading, all Banco Santander shares will have the same ISIN code. The ISIN Code of the Bank shares currently outstanding is ES0113900J37. The ISIN Code of the New Shares is ES0113902300. The ISIN Code of the pre-emptive subscription rights is ES06139009P1.
C.2	**Currency of the securities issue** The New Shares will be issued in euros.
C.3	**The number of shares issued and fully paid up and the par value per share** Banco Santander's share capital prior to the Capital Increase comprises 14,582,340,701 shares, each with a par value of EUR 0.50, all belonging to the same class and series.
C.4	**A description of the rights attached to the securities** The New Shares are ordinary shares and their owners shall have the same economic and voting rights as holders of the remaining Bank's shares, as set forth in the Companies Law, approved by Legislative Royal Decree 1/2010, of 2 July (the "**Companies Law**"). <u>The right to share in the distribution of corporate earnings and in net assets upon liquidation</u> Holders of the News Shares are granted the right to share in the distribution of corporate profits and in the net assets resulting from the liquidation. Like the other shares comprising the share capital, they do not grant their owners the right to receive a minimum dividend, as they are all ordinary shares. <u>Attendance and voting rights</u> Owners of New Shares are granted the right to attend and vote at annual general meetings, and also to contest corporate resolutions, as provided for under the general regime of the Companies Law, and subject to the provisions set forth in the Bank's bylaws. In particular, with regards to the right to attend the annual general meeting, holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the annual general meeting is to be held and who has already paid the outstanding payments, will be entitled to attend the meeting. Bank shareholders may be represented at the annual general meeting by giving their proxy to another person, even if such person is not a shareholder. Each share grants the owner one vote. <u>Pre-emptive subscription rights</u> Pursuant to the Companies Law, all Bank shares grant their holders a pre-emptive subscription right in capital increases with issue of new shares (ordinary and preferential), posted against cash contributions, and in the issue of bonds convertible into shares, except in the event of the total or partial exclusion of that pre-emptive subscription right as provided for under articles 308, 504, 505 and 506 (for capital increases), and 417 and 511 (for issues of convertible bonds) of the Companies Law. Holders of all Bank shares are also entitled to the free allocation right set forth in the Companies Law in the case of increases in fully-paid up share capital. <u>Right to information</u> Holders of bank Shares have the right to information as provided for in articles 93.d), 197 and 520 of the Companies Law and rights to the special forms of information set out in the articles of that Act and Act 3/2009, of April 3, on structural amendments of mercantile companies, with regard to amendments to the bylaws, increases and decreases in share capital, approval of the annual accounts, bond issues, whether convertible into shares or not, the transformation, merger and spin-off, winding-up and liquidation of the

	Bank, the global assignment of assets and liabilities, international transfer of registered offices and other corporate acts and operations.
C.5	**A description of any restrictions on the free transferability of the securities** The bylaws of the Bank do not contain any restrictions on the free transferability of shares representing its share capital. Transfers will take place by accounting transfer. Transfers registered in the name of the acquirer have the same effects as the transfer of the securities. However, as it is a credit entity, any direct or indirect acquisitions of shares in the share capital of Banco Santander deemed legally to be material (i.e. if they account for 10% or more of the entity's capital or voting rights, whether directly or indirectly, or they allow a significant influence to be exerted on it) require prior notification and declaration of non-opposition (through the Bank of Spain) by the European Central Bank. Any acquisition of a shareholding equal to 5% or higher but less than 10% of capital or voting rights that does not allow the holder to exercise significant influence only requires subsequent notification to the supervisor. The obligation of (i) prior notification and declaration of non-opposition by the European Central Bank (through the Bank of Spain) is also required for increases in a significant interest in excess of 20%, 30% or 50% of the capital or voting rights of a credit entity or in which control could be exerted over that credit entity; and (ii) prior notification to the supervisor of reductions in interests that could entail falling below the above thresholds (20%, 30% and 50%), relinquishing control of the entity or losing the significant interest in the entity. As a credit entity, transfer of the Bank's shares may also require additional authorisations in countries where the European Central Bank is not the supervisory authority.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded** The Bank will apply for the New Shares to be admitted to trading on the Spanish Stock Exchanges, and the other stock exchanges on which Banco Santander shares are currently traded, namely the Stock Exchanges of Lisbon, London − through CDIs−, Milan, Buenos Aires, Mexico, Warsaw, New York − through ADSs− and São Paulo − through BDRs.
C.7	**A description of dividend policy** The shareholder remuneration policy is submitted to the general shareholders' meeting for approval every year, as required in the Bank's bylaws. In keeping with this policy, the Bank normally compensates shareholders every quarter. The Bank compensated its shareholders with EUR 0.20 gross per share, in four payments for 2015: three cash payments each of EUR 0.05 per share, and another payment - also of EUR 0.05 per share - through the Santander Dividendo Elección scheme, which allows shareholders to choose to receive the equivalent amount of the dividend in cash or in Santander shares. The average acceptance of payment in shares was 84.79%. The Bank's total shareholder return for 2016 was EUR 0.21 gross per share, in four payments: three cash dividends of EUR 0.055 per share each, and one dividend of EUR 0.045 per share through the Santander Dividendo Elección scheme. Acceptance of payment in shares stood at 89.11%. This remuneration represents a 5% increase compared to 2015, with a return of 5.2% on the average share price for 2016. This will bring the total amount paid in cash in 2016 to EUR 2,469 million, compared to EUR 2,268 million in 2015. At the annual general meeting held on 7 April 2017, the Group's executive chairman, Ana Botín, announced that the Bank's board of directors, in accordance with its dividend policy, intended to increase the total dividend to EUR 0.22 gross per share EUR 0.18 of which were paid in cash and EUR 0.04 through the Santander Dividendo Elección scheme. This would increase the dividend per share by 5% and the cash dividend by 9% compared to 2016. On 4 August 2017, the first interim dividend of EUR 0.06 gross per share will be paid against 2017. The New Shares issued through the Capital Increase will be entitled to receive this interim dividend. As stated on 8 January 2015, and subsequently confirmed at Investor Day on 23 and 24 September 2015 and in the Group Strategy Update of 30 September 2016, the Bank has set a cash pay-out target of between 30% and 40% of recurrent profit. Depending on the net profit for the year, however, that range may be temporarily

	surpassed by a small margin given that the board of directors will not change its decision to pay the dividends per share referred to above against 2017 while increasing the number of shares outstanding due to the Capital Increase.

Section D – Risks

Element	Disclosure requirements
D.1	**Key information on the key risks that are specific to the issuer or its industry** **1. <u>Macro-economic risks</u>** – The growth, asset quality and profitability of the Group may be adversely affected by volatile macroeconomic and political environments. – Political events unfolding in the UK, including the negotiations for the country's exit from the European Union, could have a material adverse impact on the Group. – The Group is vulnerable to disruptions and volatility in global financial markets. – The Group may suffer adverse effects as a result of economic and sovereign debt stress in the eurozone. **2. <u>Risks related to Group businesses</u>** **2.1. Risks deriving from the acquisition of Banco Popular** – Banco Santander's acquisition of the entire share capital of Banco Popular could give rise to all types of appeals or claims being filed that could a significantly adverse impact for the Group. – Banco Santander's acquisition of the entire share capital of Banco Popular has still to be approved by some administrative authorities. If these authorisations are not obtained or if conditions are imposed, they could have a significant adverse impact for the Group. – Banco Santander's acquisition of the entire share capital of Banco Popular could fail to give rise to the expected results and profits and could expose the Group to unforeseen risks. – The integration of Banco Popular and its consequences could require a great deal of effort from Banco Santander and its management team. – The capital increase described in the securities note approved by the CNMV on 4 July 2017 could not be completed or may be incomplete. – Numerous individual and collective actions have been brought against Banco Popular in relation to floor clauses. If the cost of these actions is higher than the provisions made, this could have a material adverse impact on the Group's results and financial situation. **2.2. Legal, regulatory and compliance risks** – The Group is exposed to the risk of losses from legal and regulatory proceedings. – The Group is subject to extensive regulation that could negatively impact its businesses and operations. – The Group's regulators and supervisors can impose fines, sanctions or other measures, particularly in response to customer complaints. – The Group is subject to review by the tax authorities, and an incorrect interpretation of tax laws and regulations may have a material adverse effect on its results. – Changes in taxes and other fees could have a negative impact on the Group. – The Group may not be able to detect or prevent money laundering and other criminal financial activities in full or on a timely basis, which could expose it to contingencies that could have a material adverse effect. **2.3. Liquidity and funding risks** – Liquidity and funding risks are inherent in the Group's business and could have a material adverse

		effect.
	–	Any downgrade in the Group's credit rating would likely increase its cost of funding or require it to post additional collateral in relation to certain derivatives contracts, which could have a material adverse impact.
	2.4.	**Credit risk**
	–	The deterioration of credit quality or insufficient loan loss reserves could have a material adverse effect on the Group.
	–	The value of the collateral securing the Group's loans may not be sufficient, and it might be unable to recover the full value of the collateral.
	–	The Group is exposed to counterparty risk in its transactions.
	2.5.	**Market risk**
	–	The Group is subject to fluctuations in interest rates and other market risks, which may have a material adverse effect.
	–	Market conditions have caused and could result in material changes to the fair values of the Group's financial assets. Negative fair value adjustments could have a material adverse effect on the Group's businesses, financial situation and results.
	–	The Group could be significantly damaged by market and operational risk and other risks associated with derivatives transactions.
	2.6.	**Risk management**
	–	Failure to successfully implement and continue to improve risk management policies, procedures and methods could have an adverse effect and may exposure the Group to unidentified or unanticipated risks.
	2.7.	**Technology risks**
	–	Any failure to effectively improve or upgrade its information technology infrastructure and information systems could damage the Group.
	–	Risks relating to information security and data processing, storage and transmission systems are inherent to the Group's business.
	2.8.	**Other business and financial-sector risks**
	–	The financial problems faced by its customers could have an adverse impact on the Group.
	–	Changes in the Group's pension obligations and commitments could have a material adverse effect.
	–	The Group depends in part on dividends and other funds from subsidiaries.
	–	Increased competition, including from non-traditional providers of banking services such as technology companies, and sector consolidation could adversely affect Group results.
	–	The Group's ability to maintain its competitive position partly depends on the success of new products and services offered to customers and its ability to continue offering products and services from third parties. Increasing the range of products and services could negatively impact the Group if it is not able to control the associated risks.
	–	If the Group is unable to manage the growth of its operations, this could have a negative impact on profitability.
	–	Goodwill impairments could be recognised in relation to acquired businesses.
	–	The Group's success lies in recruitment, retaining and development of senior management and skilled personnel.
	–	The Group relies on third parties and subsidiaries for important products and services.
	–	Damage to the Group's reputation could damage its business.
	–	The Group carries out transactions with its subsidiaries and related parties. Third parties could

	consider that these transactions are not carried out on an arm's length basis. **2.9. Financial reporting and control risks** – Changes in accounting standards could impact reported earnings. – The Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of its results of operations and financial position. – Controls and procedures for financial reporting may not prevent or detect all errors or acts of fraud. Likewise, the controls implemented by the Group may not be sufficient to prevent internal fraud.
D.3	**Key information on the key risks that are specific to the securities** – The Underwriting Agreement between Banco Santander and the Underwriting Entities allows for the agreement to be cancelled under certain circumstances. The underwriting commitment of the Underwriting Entities is also subject to certain conditions precedent. – Shareholders and investors who exercise their pre-emptive subscription rights or who request Additional Shares during the Pre-emptive Subscription Period will not be able to cancel their requests. – Banco Santander cannot guarantee that an active market will develop for the pre-emptive subscription rights, or that there will be sufficient liquidity for such rights. – Any significant fall in the Bank's share price could have a negative impact on the value of the pre-emptive subscription rights. – Any delay in listing the New Shares would impact their liquidity, making it impossible to sell them until they are admitted to trading. – The price of Banco Santander shares may be volatile. – The interest in the Bank's capital of shareholders who do not exercise their pre-emptive subscription rights will be diluted. – The sale of a substantial number of the Bank's shares or pre-emptive subscription rights during or after completion of the Capital Increase, or a perception that such sales might occur, could negatively impact the price of the Bank's shares and the pre-emptive subscription rights. – Future capital increases could dilute the shareholder's interest in Banco Santander. – Future dividend payments cannot be guaranteed. – Shareholders in countries with currencies other than the euro may also be exposed to additional investment risk in the form of movements in exchange rates relevant to their holdings of the Bank's shares. – Legal and regulatory limits may restrict certain investments. – Pre-emptive subscription rights must be exercised through the Iberclear Participant Entity in whose book-entry register the pre-emptive subscription rights are deposited and New Shares are deposited must be paid in euros. There may be difficulties in exercising pre-emptive subscription rights in other jurisdictions.

Section E – Offer

Element	Disclosure requirement
E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror** As a guide, the approximate expenses associated with the Capital Increase will amount to around EUR 148,933,253, not including VAT (assuming that the Capital Increase is fully subscribed). These expenses will be borne by the Bank. Based on that estimate, the expenses of the Capital Increase would represent approximately 2.1058 % of the

	gross amount that Banco Santander would raise if the Capital Increase is subscribed in full, and Banco Santander would obtain estimated funds net of expenses of EUR 6,923,495,560.25.
E.2a	**Reasons for the offer and use of proceeds** The purpose of the Capital Increase is to enhance and optimise the Bank's capital to ensure adequate coverage of the acquisition of 100% of the share capital of Banco Popular. Banco Santander intends to use the income arising from the Offering for general corporate purposes related to the acquisition of Banco Popular. The objective of the Santander Group's capital management is to ensure adequate solvency and sufficient funds to manage the growth of its balance sheet. It also seeks to optimise the cost of such funds, contributing to achieving adequate returns for shareholders. In this regard, the Santander Group continuously refines its capital structure by using the most appropriate instruments.
E.3	**A description of the terms and conditions of the offer** The Capital Increase has a nominal amount of EUR 729,116,372.50, and a total effective amount of EUR 7,072,428,813.25. It will be carried out through the issue and placement into circulation of 1,458,232,745 newly issued ordinary shares, each with a nominal value of EUR 0.50 and of the same class and series as those currently outstanding. The New Shares will be issued with an issue premium of EUR 4.35 per share, which is equivalent to a total issue premium of EUR 6,343,312,440.75, and a unit issue price (par value plus premium) of EUR 4.85 per New Share (the "**Subscription Price**"). The Subscription Price represents a discount of 19,19% on the market price of the Bank's shares at the close of the market on 3 July 2017, (EUR 6.002), and a discount of 17.75% on the value arising from deducting the amount of the theoretical value of the pre-emptive subscription right, or the ("*theoretical ex-right price*" or TERP), from that market price. **Subscription and payment procedure** <u>Pre-emptive Subscription Period and, if applicable, request for Additional Adjustments (first round)</u> (i) Assignment of pre-emptive subscription rights: Bank shareholders will be entitled to pre-emptive subscription of New Shares if they bought their shares before 5 July 2017, (the date of publication in the Official Gazette of the Mercantile Registry — "*Last trading Date*"—) and if they appear as shareholders in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. ("**Iberclear**") at 23:59 hours on 7 July 2017 (the "*Record Date*") (the "**Accredited Shareholders**"). (ii) Pre-emptive subscription rights: Accredited Shareholders will be able to exercise the right to subscribe a number of New Shares proportional to the par value of the shares they own. Each Accredited Shareholder will have one (1) pre-emptive subscription right for each share they own. One (1) New Share may be subscribed for every ten (10) pre-emptive subscription rights. Therefore, at least 10 pre-emptive subscription rights must be held to subscribe 1 New Share in exercising the pre-emptive subscription right at the Subscription Price. Each New Share subscribed in exercising the pre-emptive subscription right must be subscribed and paid up at the Subscription Price, i.e. EUR 4.85. (iii) Transfer of rights. Pre-emptive subscription rights may be transferred under the same conditions as the shares from which they result, in accordance with the provisions of Article 306.2 of the Companies Law, and must be traded on Spanish Stock Exchanges. (iv) Exercise of rights. The pre-emptive subscription period will last fifteen (15) calendar days, from the day following the publication of the Capital Increase announcement in the Official Gazette of the Mercantile Registry (the "**Pre-Emptive Subscription Period**"). The Pre-emptive Subscription Period is expected to begin on 6 July 2017 and end on 20 July 2017, inclusive. The pre-emptive subscription rights will be traded during the trading sessions between these dates, being the first on 6 July 2017 and the last on 20 July 2017. Accredited Shareholders which own at least ten (10) pre-emptive subscription rights at the end of that period, as well as third-party investors that acquired such rights on the market during the Pre-emptive Subscription Period (the "**Investors**"), may exercise their rights in the proportion necessary to subscribe the New Shares.

	Any pre-emptive subscription rights not exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period. To exercise the pre-emptive subscription rights, the Accredited Shareholders and the Investors can contact their branch of Banco Santander or of the authorised participant entity (the "**Participant Entities**") of Iberclear, whose accounting records contain the pre-emptive subscription rights (which in the case of the Accredited Shareholders will be the Participant Entity in which the shares granting said rights are deposited), indicating that they intend to exercise the aforementioned subscription right. Those Accredited Shareholders or Investors who have deposited their pre-emptive subscription rights in Banco Santander, will be able to issue their subscription orders using through their branch and, alternatively, through the remote banking service (both digitally or by telephone for those clients of Banco Santander who have this service enabled). Using digital banking, they will be able to automatically access the Summary, this Securities Note and the Registration Document. By telephone, they will have to confirm that they have had access to that information on the website of the Spanish Securities Market Commission (http://www.cnmv.es) or on the website of Banco Santander (http://www.bancosantander.es). However, Accredited Shareholders or Investors who wish to ask for additional New Shares (the "**Additional Shares**") will have to do so through the branch where they have deposited their pre-emptive subscription rights. The orders placed to exercise the pre-emptive subscription right shall be considered final, irrevocable and unconditional. They may not be revoked or modified by holders of pre-emptive subscription rights, unless a supplement to the Prospectus is published. They shall not be affected by termination of the Underwriting Agreement (as defined below in this same Section) or the non-entry into force of the underwriting and pre-financing obligations envisaged therein. (v) Request for Additional Shares During the Pre-emptive Subscription Period, Accredited Shareholders who have exercised all of the pre-emptive subscription rights they have held at that time with the relevant Participant Entity, and Investors who acquire pre-emptive subscription rights and exercise them in full, may request the subscription of Additional Shares when they exercise these rights, through the Participant Entity in which they are deposited, in case any New Shares remain unsubscribed following exercise of the pre-emptive subscription rights at the end of the Pre-emptive Subscription Period (the "**Excess Shares**") and, thus, the maximum amount to be subscribed in this Capital Increase had not been covered. <u>Allocation Period for Additional Shares (second round)</u> If there were any Excess Shares at the end of the Pre-emptive Subscription Period, an allocation process will be launched in which the Excess Shares will be distributed among Accredited Shareholders and Investors who applied to subscribe them. Under no circumstances will Accredited Shareholders and/or Investors be awarded more shares than they applied for. The Additional Shares will be allocated on the fourth trading day following the date on which the Pre-emptive Subscription Period ends (the "**Allocation Period for Additional Shares**"). It is envisaged that the Additional Shares allocation will take place on 26 July 2017. If the number of Additional Shares requested exceeds the number of Excess Shares, Banco Santander as agent entity of this Capital Increase (the "**Agent Entity**") will allocate them on a pro-rata basis in proportion to the volume of Additional Shares requested, using the percentage that the Additional Shares requested by each subscriber represent with respect to the total Additional Shares requested. <u>Discretionary Allocation Period (third round)</u> If all the New Shares have not been allocated when the Allocation Period for Additional Shares has been completed, a period can be opened for subscription of those shares resulting from the difference between the overall New Shares and those subscribed in the Pre-Emptive Subscription Period the Allocation Period for Additional Shares. These will be known as "**Discretionary Allocation Shares**". The discretionary allocation period is expected to begin, where applicable, any time following the end of the Allocation Period for Additional Shares and to end no later than 6:00 a.m. Madrid time on 27 July 2017 (the "**Discretionary Allocation Period**"). If a Discretionary Allocation Period is opened, the Bank will notify the CNMV by filing a material fact. If all of the New Shares were subscribed during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, there would be no Discretionary Allocation Period and the Agent would notify the Participant Entities of this no later than 6.00 p.m. Madrid time on 26 July 2017. During the Pre-emptive Subscription Period, the Additional Shares Allocation Period and the Discretionary

	Allocation Period, Citigroup Global Markets Limited, UBS Limited, BNP PARIBAS, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Brach, Goldman Sachs International, HSBC Bank plc, Morgan Stanley & Co International plc, Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A. (in collaboration with Banco Português de Investimento, S.A.), Banca IMI, S.p.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Mediobanca Banca di Credito Finanziario S.p.A., RBC Europe Limited, Société Générale, Wells Fargo Securities, LLC and Jefferies International Limited (the "**Underwriters**"), jointly with the Bank as the global coordinator (Banco Santander, Citigroup Global Markets Limited and UBS Limited as "**Global Coordinators**"), will broadcast and actively promote the capital increase in order to attract potential domestic and foreign qualified investors (in countries where the subscription is permitted subject to local laws), if appropriate, through proposals to subscribe New Shares underwritten under the Underwriting Agreement (the "**Underwritten Shares**"). Wells Fargo will not carry out marketing and promotional activities to generate subscription requests from potential investors in Spain for the Underwritten Shares. **Payment procedure** New Shares subscribed in the Pre-emptive Subscription Period The Subscription Price of each New Share subscribed during the Pre-emptive Subscription Period will have to be paid up in full by the subscribers when the New Shares are subscribed (i.e. when the subscription order is placed), through the Iberclear Participant Entities through which the subscription orders are placed. According to the proposed schedule, the Participant Entities with which subscription orders for New Shares are placed will pay the amounts corresponding to the payment for the New Shares subscribed during the Pre-emptive Subscription Period to the Agent through the channels made available by Iberclear, so that they are received by the Bank no later than 10:30 a.m. Madrid time on 27 July 2017, with the value date being the same day. New Shares subscribed in the Allocation Period for Additional Shares. The Subscription Price of each New Share subscribed during the Allocation Period for Additional Shares must be paid up in full no later than 10:30 a.m. Madrid time on 27 July 2017 through the Participant Entities with which their subscription orders for Additional Shares were placed. The requests of Additional Shares not disbursed under the aforementioned terms shall be deemed to have not been made. However, Participant Entities may ask subscribers a provision of funds for the amount corresponding to the Subscription Price of the Additional Shares requested. New Shares subscribed in the Discretionary Allocation Period The Subscription Price of the Discretionary Allocation Shares must be paid up in full by the final investors awarded the shares no later than 1 August, 2017, without prejudice to the pre-financing envisaged in this section. Underwriters that receive subscription requests for the Discretionary Allocation Period may ask applicants to provide a provision of funds in order to ensure payment for the price of the Discretionary Allocation Shares that were allocated thereto, where applicable. For operational reasons, and in order for the New Shares to be admitted to trading on the Spanish Stock Exchanges as soon as possible, prior to executing and registering the public deed for the Capital Increase in the Commercial Registry, the Global Coordinators (with the exception of the Bank), acting in name and, where applicable, on behalf of the Underwriters (in proportion with their respective underwriting commitment), acting in turn in name and on behalf of the successful final bidders, have undertaken to make a prepayment to the Bank for the amount corresponding to the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period up to the number of Underwritten Shares (the "**Shares Subject to Pre-financing**"), and to subscribe and disburse these Shares Subject to Pre-financing for the amount and in the proportion envisaged in the Underwriting Agreement. This pre-financing must be received by the Bank, without deducting any fees or expenses, no later than 7.00 a.m. Madrid time on 27 July 2017 (the "**Subscription Date**"). **Placement and underwriting** On 3 July 2017, an underwriting agreement was signed between the Bank, as the issuer and the Global Coordinator, and the Underwriting Entities, related to the underwriting of all New Shares (a total of 1,458,232,745 New Shares) (the "**Underwriting Agreement**"). The total number of New Shares underwritten, corresponding to 100% of the New Shares, will be known as the "**Total Underwriting Obligation**". The number of New Shares underwritten by each Underwriter and their percentages of the Total Underwriting Obligation are as follows:

Underwriter	New Shares underwritten (in numbers)	(as a %)
Citigroup Global Markets Limited	291,646,549	20.00%
UBS Limited	291,646,549	20.00%
BNP PARIBAS	81,369,387	5.58%
Credit Suisse Securities (Europe) Limited	81,369,387	5.58%
Deutsche Bank AG, London Branch	81,369,387	5.58%
Goldman Sachs International	81,369,387	5.58%
HSBC Bank plc	81,369,387	5.58%
Morgan Stanley & Co International Plc	81,369,387	5.58%
Banco Bilbao Vizcaya Argentaria, S.A.	42,434,573	2.91%
CaixaBank, S.A. (in collaboration with Banco Português de Investimento, S.A.)	42,434,573	2.91%
Banca IMI, S.p.A.	36,455,819	2.50%
Barclays Bank PLC	36,455,819	2.50%
Crédit Agricole Corporate and Investment Bank	36,455,819	2.50%
ING Bank N.V.	36,455,819	2.50%
Mediobanca Banca di Credito Finanziario, S.p.A.	36,455,819	2.50%
RBC Europe Limited	36,455,819	2.50%
Société Générale	36,455,819	2.50%
Wells Fargo Securities, LLC	36,455,819	2.50%
Jefferies International Limited	10,207,627	0.70%
Total Underwriting Obligation	1,458,232,745	**100%**

The underwriting obligation of each Underwriter, in proportion to its share of the Total Underwriting Commitment, will be reduced by the number of New Shares subscribed and paid up during the Pre-emptive Subscription Period, in the Allocation Period for Additional Shares, and, if applicable, in the Discretionary Allocation Period. This is without prejudice to their pre-financing obligations for the Shares Subject to Pre-financing assumed by the Global Coordinators (with the exception of Banco Santander).

Significant shareholders and directors

The members of the board of directors of Banco Santander have informed the Bank of their non-binding intent to exercise any pre-emptive subscription rights that they may hold as Accredited Shareholders. This subscription will take place during the Pre-emptive Subscription Period.

Expected timetable

The expected timetable for the Capital Increase is shown below:

Action	Estimated date
Resolution to approve Capital Increase	3 July 2017
Signing of the Underwriting Agreement	3 July 2017
Material fact announcing the Capital Increase and the signing of the Underwriting Agreement	3 July 2017
Approval and registration of the Share Registration Document and the Securities Note in the Spanish Securities Market Commission	4 July 2017
Material fact announcing the registration of the Securities Note in the Spanish Securities Market Commission, the Pre-emptive Subscription Period, and the request for Additional Shares	4 July de 2017
Publication of announcement in the Official Gazette of the Mercantile Registry ("**BORME**") and last trading date of shares with rights (Last Trading Date)	5 July 2017
Launch of Pre-emptive Subscription Period (1st round) and request for Additional Shares	6 July 2017
Initial trading date of Bank shares "ex-dividend" and admission to trading of pre-emptive subscription rights	6 July de 2017
Cut-off date on which Iberclear will determine positions for allocation of pre-emptive subscription rights ("Record Date")	7 July 2017
Payment date of the pre-emptive subscription rights by Iberclear	10 July 2017
End of trading of pre-emptive subscription rights	20 July 2017

End of Pre-emptive Subscription Period and request for Additional Shares	20 July de 2017
If applicable, Allocation Period for Additional Shares (2nd round)	26 July 2017
Material fact announcing the New Shares subscribed during the Pre-emptive Subscription Period, and, if applicable, during the period for Allocation of Additional Share, and opening of any Discretionary Allocation Period	26 July de 2017
Opening, if applicable, of the Discretionary Allocation Period (3rd round)	26 July de 2017
If applicable, deadline for the Discretionary Allocation Period. If a Discretionary Allocation Period is opened, disclosure of a material fact announcing the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period.	27 July 2017
Payment by Iberclear Participant Entities to Banco Santander, S.A. (as the Agent) for the New Shares subscribed during the Pre-emptive Subscription Period, and, if applicable, the Allocation Period for Additional Shares	27 July 2017
If applicable, payment by the Global Coordinators (except for Banco Santander), in name and on behalf of the Underwriting Entities (acting in turn in name and on behalf of the successful bidders), for the New Shares placed during the Discretionary Allocation Period ("pre-financing") or whose subscription corresponds to the Underwriting Entities, in performance of their respective underwriting obligations	27 July 2017
Resolution to execute Capital Increase ("Execution Date")	27 July 2017
Notarisation of the Capital Increase deed	27 July 2017
Registration of the notarised Capital Increase deed with the Mercantile Registry	27 July 2017
Material fact announcing the execution of the Capital Increase resolution, notarisation and registration of the public deed at the Mercantile Registry and estimated date for admission to trading of the New Shares	27 July 2017
Registration of the New Shares in Iberclear (share registration)	28 July 2017
Admission to trading of the New Shares by the CNMV (Spanish Securities Market Commission) and the Spanish Stock Exchanges	28 July 2017
Execution, if applicable, of the special stock exchange transaction for transfer of the Discretionary Allocation Shares by the Global Coordinators (except for Banco Santander) to the other Underwriting Entities (for subsequent transfer to the final recipients) (the "**Special Stock Exchange Transaction**")	28 July 2017
Material fact announcing the admission to trading of the New Shares	28 July 2017
Estimated day for admission to trading of the New Shares	31 July 2017
Settlement, if applicable, of the Special Stock Exchange Transaction	1 August 2017

The Bank has established the above schedule taking into account the most likely dates on which each one of the milestones is likely to take place. Las fechas indicadas son meramente estimativas y no hay certeza de que las actuaciones descritas tendrán lugar en tales fechas. If there is any delay in the schedule, the Bank will announce this to the market and the Spanish Securities Market Commission as soon as possible, through a material fact.

The deadlines and procedures included in this section may have special characteristics with regard to shareholders of Banco Santander shares on the different foreign stock exchanges on which the Bank is listed.

E.4 **A description of any interest that is material to the issue/offer, including conflicting interests**

The Underwriters and other entities belonging to their corporate group provide, and may in the future provide, investment, retail and commercial banking and other services for the Bank and its Group, for which they receive, and are likely to continue to receive, customary fees and expenses for such services. Likewise, in the ordinary course of their business, the Underwriters and other entities belonging to their group hold and may in the future hold shares in Banco Santander and other financial instruments issued by Banco Santander or entities of its Group, including Banco Popular.

Amongst others services or relationships, and in an non-exhaustive manner, (i) Citigroup Global Markets Limited has advised Banco Santander in the acquisition of 100% of the share capital of Banco Popular, (ii) an Argentine subsidiary of the Bank acquired in the first quarter of 2017 the retail portfolio in that country of Citibank NA, or (iii) on 30 June 30 2017 Banco Popular announced the appointment of Morgan Stanley as

	advisor in relation to the process of finding partners for a portfolio of foreclosed assets and real estate non-performing loans for a gross book value of approximately EUR 30,000 million. The Bank is not aware of any relationships or significant economic interests between Banco Santander and its Group and the other entities involved in the Capital Increase, except for the strictly professional relationship derived from the advice mentioned herein and what has been hereby stated .
E.5	**Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and indication of the period of the lock-up.** Banco Santander has undertaken to the Underwriters, directly and on behalf of its affiliates, not to issue, offer, sell, agree to issue or sell, pledge or grant any security over, grant any option to purchase or, in any other way, directly or indirectly dispose of, or perform any transaction that might have an economic effect similar to the issuance or sale, or the announcement of the issuance or sale, of Bank shares, securities that are convertible or exchangeable into Bank shares, warrants, or any other instruments that might give the right to subscribe or acquire Bank shares, including by means of derivative transactions, from the date of the Agreement until ninety (90) days following the date on which the Capital Increase is declared subscribed and paid-in, unless authorised unanimously in advance by the Joint Global Coordinators (except for Banco Santander), which cannot be refused or delayed without justified cause. Without prejudice to the foregoing, the Bank and its affiliates may announce or carry out the following without the authorisation mentioned in the paragraph above: (a) activities arising from transactions that form part of the liquidity, treasury, treasury stock, ordinary market making or other securities and banking activities of the Bank or such affiliate, both for the Bank's or the affiliate's own account and on behalf of customers, to the extent that such activities are in the ordinary course of business of the Bank or such affiliate, including, but not limited to, the activities described in the Bank's SEC No-Action Letter, File No. TP 17-09; (b) issuances of shares as dividends or remunerations in respect of the Bank ordinary shares (including any scrip dividend program of the Bank); (c) issuances and/or deliveries of options and shares granted to employees or officers of the Bank or its affiliates or other persons pursuant to related compensation arrangements within the framework of compensation for such employees, officers or other persons (including those shares that, within the framework of such programs, are subscribed or acquired by financial entities), as well as shares that are issued as a result of the exercise of such options, or issuances and/or deliveries of shares as a means of remuneration associated with certain financial products offered by the Bank to its clients (such as, without limitation, the "Cuenta 1, 2, 3"); (d) issuances of shares in connection with the conversion of convertible securities outstanding as of the date of the Underwriting Agreement; (e) transfers of shares between entities belonging to the same group (within the meaning of article 42 of the Spanish Commercial Code), provided that the party receiving the shares assumes a lock-up commitment for the remaining period thereof; (f) issuances of capital instruments that qualify as Additional Tier 1 Capital in accordance with Regulation (EU) no 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms; (g) issuances of shares in connection with the acquisition of, or a joint venture with, another company, provided that the number of shares issued pursuant to this clause (h) shall not exceed 5% of the shares of the Bank then outstanding provided that the party receiving the shares assumes a lock-up commitment for the remaining period thereof; and (h) other issuances or deliveries of securities associated with strategic operations of the Bank, provided that (1) the party receiving the shares assumes a lock-up commitment for the remaining period thereof or (2) the issuance or delivery of securities is in exchange for non-cash consideration.
E.6	**The amount and percentage of immediate dilution resulting from the offer.** The Bank's shareholders have a pre-emptive subscription right over the New Shares in the Capital Increase. Hence, if this right is exercised by the Shareholders, they will suffer no dilution of their ownership interest in the Bank's share capital. If none of Banco Santander's current shareholders subscribe New Shares in the percentage corresponding to them as a result of the pre-emptive subscription rights, and assuming that the New Shares are fully subscribed by third parties (i.e. issuing a total of 1,458,232,745 New Shares), the ownership interest of Banco Santander's current shareholders would represent 90.909% of the total number of the Bank's shares assuming the full subscription of the Capital Increase full. This would represent a 9.091% dilution of the share capital prior to the Capital Increase.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror** The Bank shall not charge any expenses to the subscribers of the New Shares. No expenses deriving from the

	registration of the New Shares in the accounting records of Iberclear or its Participant Entities shall accrue for investors participating in the Capital Increase. However, Participant Entities in which Banco Santander shareholders deposit their Banco Santander shares may establish the fees and recoverable administrative expenses they freely determine for keeping the securities in their accounting records, in accordance with current legislation and the rates published in their lists of rates and filed with the Bank of Spain and the CNMV. Likewise, Banco Santander and the other Participant Entities through which the subscription is placed may also freely determine their fees and recoverable expenses for processing subscription orders for the securities and the purchase and sale of pre-emptive subscription rights, in accordance with current legislation. The foregoing is understood without prejudice to any special conditions that might apply in other jurisdictions under their respective laws.

II. RISK FACTORS OF THE SHARES

Before deciding to invest in the pre-emptive subscription rights or shares of the capital increase with pre-emptive subscription rights of Banco Santander, S.A. ("**Banco Santander**" or the "**Bank**", the "**New Shares**" and the "**Capital Increase**", respectively), the risks set out below, and also those outlined in the Banco Santander Registration Document filed with the official registry of the Spanish Securities Market Commission ("**CNMV**") on July 4, 2017 regarding the Bank and its business, among others, must be taken into account (the Registration Document, the Summary and the securities note included in Section III below (the "**Securities Note**") will be referred to jointly as the "**Prospectus**").

The Underwriting Agreement between Banco Santander and the Underwriting Entities allows for the agreement to be cancelled under certain circumstances. The underwriting commitment of the Underwriting Entities is also subject to certain conditions precedent.

As set out in section III.5.4 of the Securities Note, the Underwriting Agreement signed by Banco Santander and the Underwriting Entities in relation to the Capital Increase may be cancelled if the Bank so decides, or by a unanimous decision of the Global Coordinators (except for Banco Santander in its role as such) and following a non-binding consultation with Banco Santander, if any of the events of termination provided for under the terms and conditions of the Underwriting Agreement occur. These events include certain adverse material effects that could occur, including the rating; the financial, operational, legal or other kind of condition; the profits; the financial or solvency position of the Bank and its subsidiaries considered as a whole; the financial markets in the United States, the United Kingdom, Spain or the European Union or the international financial markets; or the general suspension of trading of securities declared by the competent authority of the New York Stock Exchange, the Spanish Stock Exchanges or the London Stock Exchange; or the suspension of trading of securities declared by the competent authority of the New York Stock Exchange, the Spanish Stock Exchanges or the London Stock Exchange; or a material disruption in the banking business or custody services and settlement of securities in the United States, the United Kingdom or Spain. The termination of the Underwriting Agreement will cancel the underwriting and prefunding obligations of the Underwriters and invalidate any requests for Discretionary Allocation Shares made by investors and the obligation to subscribe and disburse the Discretionary Allocation Shares by the Underwriters in compliance with their underwriting obligation. If the Underwriting Agreement is terminated, the Capital Increase may be incompletely subscribed, and shareholders and investors who have exercised pre-emptive subscription rights or who have applied to subscribe Additional Shares will not be able to revoke or modify such orders or requests, without prejudice to the fact that if, due to the grounds for such a termination, it were necessary to publish a supplement before the offer terminates, as provided for under article 16 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, then a revocation period would be opened as a result.

Furthermore, Banco Santander may, at its sole discretion and following a non-binding consultation with the Global Coordinators (excluding the Bank), terminate the Underwriting Agreement if it deems so appropriate any time between the date of the Underwriting Agreement and 9:00 a.m. Madrid time, of the date of publication of the Capital Increase announcement in the Official Gazette of the Mercantile Registry (BORME) (which is expected to take place on 5 July 2017), in which case the Bank may decide not to carry out the Capital Increase or, alternatively, go ahead with the Capital Increase without underwriting and, in such case, the Capital Increase could be incomplete.

Likewise, the underwriting and prefunding obligations of the Underwriters under the Underwriting Agreement are subject to compliance with certain conditions precedent, which are common practice in this type of transactions and which must be complied with no later than the Pre-Funding Time (i.e., 07:00 a.m. Madrid time) on the Execution Date (expected to be 27 July 2017), the date on which the Capital Increase public deed is expected to be granted. Otherwise, the underwriting and prefunding obligations. of the Underwriters will not take effect.

In the event of termination of the Underwriting Agreement, or if the underwriting and prefunding obligations of the Underwriters under the Underwriting Agreement do not come into force, the Capital Increase could be incomplete, which could have an adverse impact on the value of Banco Santander's shares and on the pre-emptive subscription rights, regardless of the Bank's financial situation and results.

Shareholders and investors who exercise their pre-emptive subscription rights or who request Additional Shares during the Pre-emptive Subscription Period will not be able to cancel their requests.

The exercise of pre-emptive subscription rights and of subscription orders during the Pre-emptive Subscription Period concerning requests for Additional Shares will be considered final, irrevocable and unconditional. Therefore, once the rights have been exercised or the requests have been made, shareholders and investors will not be able to revoke or modify those orders or requests, and they will be obliged to subscribe the New Shares, even if the Underwriting Agreement is terminated or if the underwriting obligations set out therein do not come into force. Proposals to subscribe Discretionary Allocation Shares will also be understood to be final, irrevocable and unconditional, except if the Underwriting Agreement is terminated, in which case the proposals to subscribe Discretionary Allocation Shares will be invalid.

However, should a significant factor occur (which could be, among others, certain of the envisaged as a ground for termination of the Underwriting Agreement indicated in Section III.5.4.3 of the Securities Note), between the date the Securities Note is registered with the CNMV and definitive closing of the public offering that requires the publication of a supplement and the subsequent opening of the revocation period for the orders and subscription requests placed prior to the publication of the supplement, for a period of no less than two working days from said publication, the Accredited Shareholders and the Investors will be able to revoke the subscription order according to article 16 of the Directive 2003/71/CE of the European Parliament and the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, currently into force.

Banco Santander cannot guarantee that an active market will develop for the pre-emptive subscription rights, or that there will be sufficient liquidity for such rights.

The pre-emptive subscription rights for the capital increase of this Prospectus will be traded on the Spanish Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Spanish Electronic Stock Market Interconnection System (Continuous Market) during a period of fifteen days from the day following publication of the announcement of the Capital Increase in the Official Gazette of the Mercantile Registry (BORME).

Pre-emptive subscription rights for the Capital Increase can be traded in Portugal on Euronext Lisbon between the third business day of the period established for them to be exercised in Spain, which will be the first day of the period for them to be exercised in Portugal, and the third business day before the last day of that period, without prejudice to their being traded outside the market. The pre-emptive subscription rights of the Capital Increase under this Prospectus will be traded on the Buenos Aires Stock Market ("*Bolsa de Comercio de Buenos Aires*") in Argentina, subject to Argentinean laws and applicable regulations.

Pre-emptive subscription rights cannot be traded on any regulated market in the United Kingdom, Italy or Poland. Section IV provides details of the procedures applicable for the Capital Increase in these three countries.

Banco Santander cannot guarantee that an active market will develop for the pre-emptive subscription rights on the Spanish Stock Exchanges, the Euronext Lisbon or the Buenos Aires Stock Market in Argentina during these periods, or that there will be sufficient liquidity during these periods for the pre-emptive subscription rights.

Any pre-emptive subscription rights not exercised during the Pre-emptive Subscription Period will be automatically extinguished at the end of the Pre-emptive Subscription Period. The Bank's shareholders (or anyone who purchases their rights) who do not exercise or sell their rights in the period stipulated will relinquish them and will not receive any form of financial compensation for them.

Any significant fall in the Bank's share price could have a negative impact on the value of the pre-emptive subscription rights.

As the trading price of the rights depends on the trading price of Banco Santander's ordinary shares, any significant fall in the Bank's share price could have a negative impact on the pre-emptive subscription rights. Therefore, risks that affect the trading price of Banco Santander shares, including the risks described in this Securities Note, could also affect the trading price of the pre-emptive subscription rights.

The Bank cannot guarantee the holders of pre-emptive subscription rights that the price of Banco Santander shares will not fall below the subscription price of the New Shares after the holders of the pre-emptive subscription rights have decided to exercise them. Should that happen, the holders of the pre-emptive subscription rights would have agreed to acquire the New Shares at a price above the market price, which would give rise to an immediate, unrealised, loss. Banco Santander cannot guarantee holders of pre-emptive subscription rights that, once they have exercised their rights, they will be able to sell their shares at a price equal to or higher than the subscription price.

Any delay in listing the New Shares would impact their liquidity, making it impossible to sell them until they are admitted to trading.

The Bank will request that the New Shares be admitted to trading on the Spanish Stock Exhanges and the foreign stock exchanges on which its shares are listed.

Banco Santander expects that, unless there are unforeseen events or delays, the New Shares will be admitted to trading on the Spanish Stock Exchanges within three trading days of registration of the New Shares as book entries in the registries of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (the Securities Registration, Clearing and Settlement Management Company) and certainly within no more than five trading days from the date on which the board of directors of Banco Santander, or, by substitution, its executive committee, declares that the Capital Increase has been executed.

Moreover, Banco Santander expects that, barring unforeseen developments, the New Shares shall be admitted to trading on the London, Euronext Lisbon, Milan and Warsaw stock markets on the same day as they are admitted to trading on Spanish Stock Exchanges, or very soon thereafter.

Any delay in listing the New Shares on Spanish Stock Exchanges would impact the liquidity of the New Shares, making it impossible to sell them until they are admitted to trading.

The market price of Banco Santander's shares may be volatile.

The market price of Banco Santander's shares may be volatile. The Bank's share price may be negatively affected by its operating results, poor publicity, changes to analyst's recommendations about the Bank and conditions in global financial markets and the sectors in which Banco Santander operates. The price of shares issued in a public offering is, generally, more volatile immediately after the offer.

Moreover, over recent years, stock exchanges in Spain and worldwide have been extremely volatile, in terms of trading volumes and share prices: such movements are often unrelated to the underlying performance of the companies involved. This volatility may negatively impact the market price of Banco Santander shares, regardless of the Bank's financial position and operating results. This may make it difficult for investors to sell their shares in the market for more than the subscription's price.

The shareholding in the Bank's capital of those shareholders who do not exercise their pre-emptive subscription rights will be diluted.

Since this is an issue of new ordinary shares of Banco Santander, those shareholders who do not exercise their pre-emptive subscription rights will see their shareholding in the Bank's capital diluted by up to 9.091% compared to their current shareholding, assuming 100% subscription of the New Shares (and that no other shareholder exercises their pre-emptive subscription right).

Even if a shareholder transfers its un-exercised pre-emptive subscription rights prior to the end of the Pre-emptive Subscription Period, the price that it receives as consideration may not be sufficient to fully compensate it for the dilution of its shareholding in the capital of Banco Santander resulting from the Capital Increase.

The sale of a substantial number of the Bank's shares or pre-emptive subscription rights during or after completion of the Capital Increase, or a perception that such sales might occur, could negatively impact the market price of the Bank's shares and pre-emptive subscription rights.

The sale of a substantial number of the Bank's shares or pre-emptive subscription rights in the market during or after completion of the Capital Increase, or the perception that such sales might occur, could negatively impact the price of Banco Santander's shares and pre-emptive subscription rights.

Likewise, future share sales could have a significant impact on the Bank's shares market, and the Bank's ability to raise additional capital through further issues of equity securities.

Future capital increases could dilute the shareholders' interest in Banco Santander

Following this Capital Increase, the Bank could also carry out further capital increases in the future. New shares could be issued through a Capital Increase or through the exercise of conversion rights by holders of bonds convertible into shares or similar instruments convertible into Banco Santander's shares. The Bank's shareholders could see their shareholding in the Bank's capital diluted by any such capital increases if they do not exercise their pre-emptive rights or if such rights are totally or partially excluded, pursuant to the amended Companies Law, approved by Legislative Royal Decree 1/2010, of 2 July (the "**Companies Law**").

The Bank's general shareholders' meeting held on 7 April 2017 authorised the Board of Directors, under item five of the agenda, to increase its share capital within a maximum of three years, through one or more such increases, and up to half of its share capital. This authorisation includes the power to exclude pre-emptive subscription rights up to a maximum of 20% of the Bank's share capital on the date of adoption of that resolution, with the power to delegate in favour of the executive committee. In addition, the Bank's general shareholders' meeting held on 27 March 2015 approved, under item ten (A) of the agenda, to delegate powers to the board of directors to issue fixed-income securities, preference shares and debt instruments of a similar nature (including warrants) convertible into and/or exchangeable for shares in the Bank during a period of no more than five years.

As of the date of this Securities Note, the Bank has issued preference shares contingently convertible (Additional Tier I) into shares of the Bank, with a nominal outstanding value of EUR 3.75 billion and USD 1.5 billion, although the conversion of these preference shares is linked to the occurrence of particular events, mainly the Bank's capital ratios falling below particular thresholds or regulatory intervention in the Bank. Any contingent conversion of such instruments in the future would dilute the shareholding of shareholders in the Bank's share capital.

However, pursuant to the Underwriting Agreement, the Bank has undertaken, subject to certain exceptions, not to issue shares or carry out any of the operations set out in section 7.3 of the Securities Note, unless it is authorised to do so by the Global Coordinators (except for Banco Santander), from the date of signature of the Underwriting Agreement until ninety days after the date that the Bank's New Shares issued in the Capital Increase are declared to be subscribed and paid up. On completion of this period, the Bank may decide to issue shares or securities convertible into shares.

Future dividend payments cannot be guaranteed

The possibility of future dividend payments by the Bank could be affected by the risk factors set out in the Prospectus. Payment of dividends is dependent on the Bank's profits, the regulatory capital ratios, its financial situation, its liquidity requirements and other relevant factors at the time.

Shareholders in countries with currencies other than the euro may also be exposed to additional risk in the form of movements in exchange rates relevant to their holdings of the Bank's shares

The Bank's shareholders in countries with currencies other than the euro may also be exposed, regarding its holding of the Bank's shares, to additional risk in the form of movements in exchange rates relevant to their holdings. The Bank's shares are exclusively listed in euros and all future dividend payments shall be made in euros. Therefore, any dividends received on holdings of the Bank's shares, or proceeds from sales of the Bank's shares could be negatively impacted by exchange rate movements against other currencies, including the US dollar, the pound sterling, the Polish zloty, the Mexican peso, the Brazilian real and the Argentinean peso.

Legal and regulatory limits may restrict certain investments

The investment activities of some investors are subject to legal and regulatory regulations or review by particular authorities. All potential investors should consult their legal advisors to determine whether, and to what extent: (i) pre-emptive subscription rights and/or subscription of New Shares are investments permitted by Law; (ii) the pre-emptive subscription rights and/or New Shares may be used as collateral for different types of funding; and (iii) other restrictions might apply to the subscription, acquisition, sale or pledge of pre-emptive subscription rights and/or New Shares. Financial entities should consult their legal advisors and regulators to determine the appropriate treatment to be applied to pre-emptive subscription rights and/or New Shares under prevailing regulations.

Pre-emptive subscription rights must be exercised through the Iberclear participant in the book-entry register of which the pre-emptive subscription rights and New Shares are deposited. Payment must be made in euros. There may exist difficulties to exercise the pre-emptive subscription rights in other jurisdictions.

Pre-emptive subscription rights must be exercised through the Iberclear participant in the book-entry register of which the securities are deposited. The Iberclear participant is located in Spain, and payments must be made to such Iberclear participant in euros. Therefore, it may be difficult for the Group's shareholders and investors outside Spain to exercise their rights, request the allocation of additional shares or pay the subscription prices for such shares.

Shareholders resident in other jurisdictions may not be able to exercise their pre-emptive subscription rights unless they meet certain legal requirements such as the need to register a securities offering with the governing bodies of the stock market in the jurisdictions in which they are resident, or, as the case may be, by obtaining a waiver of the need to meet such requirements.

Furthermore, the procedure and calendar of the offer in relation to the New Shares in the different jurisdictions in which the Capital Increase takes place may depend on, further to the abovementioned legal requirements, the procedures and systems that the central securities depositaries, coordinating bodies, depositary institutions or other entities of a similar nature make available for such purposes in their jurisdictions. Therefore, shareholders and investors who have deposited their securities in such foreign jurisdictions may see a reduction in the periods for subscribing New Shares, opting to sell their pre-emptive subscription rights or trading with them. Likewise, in addition to the required authorisations from Spanish authorities and entities, the admission to trading of the New Shares on stock exchanges other than those of Madrid, Barcelona, Bilbao and Valencia is subject to certain checks by authorities and entities from the corresponding foreign jurisdictions. Therefore, the listing of the New Shares on foreign stock markets may be delayed compared to the date of the start of trading of the New Shares on the Spanish stock exchanges.

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III. INFORMATION ON THE SECURITIES TO BE ADMITTED TO TRADING - SECURITIES NOTE (ANNEX III OF COMMISSION REGULATION (EC) No 809/2004, OF 29 APRIL 2004

1. PERSONS RESPONSIBLE

1.1 All persons responsible for the information given in the prospectus and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office.

Mr. Francisco Javier Illescas Fernández-Bermejo, acting on behalf of and representing BANCO SANTANDER, S.A. (hereinafter, the "**Bank**" or "**Banco Santander**"), in his capacity as Deputy Director-General, assumes responsibility for the entire content of this Securities Note on the Bank's Shares (hereinafter, the "**Securities Note**"), which complies with the provisions of Annex III of Commission Regulation (EC) No 809/2004, of 29 April 2004, regarding the issuance and admission to trading of 1,458,232,745 ordinary shares of Banco Santander (hereinafter, the "**New Shares**"), with a nominal value of EUR 0.50 each, in the context of the capital increase with pre-emptive subscription rights set out in this Securities Note (hereinafter, the "**Capital Increase**").

Mr. Francisco Javier Illescas Fernández-Bermejo, has sufficient powers of attorney to bind the Bank in virtue of his position as Deputy Director-General, and also by virtue of the resolutions passed by the executive committee of the Bank on 3 July 2017.

The Securities Note, Banco Santander's registration document registered in the official CNMV register on 4 July 2017 (the "**Share Registration Document**") and the summary included in Section I above (hereinafter, the "**Summary**") shall be referred to collectively as the "**Prospectus**".

1.2 A declaration by those responsible for the prospectus that, having taken all reasonable care to ensure that such is the case the information contained in the prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the part of the prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Mr. Francisco Javier Illescas Fernández-Bermejo, on behalf of and representing the Bank, having acted with reasonable diligence to ensure that such is the case, declares that the information contained in this Securities Note, is, to the best of his knowledge, in accordance with the facts and contains no omission likely to affect its import.

2. RISK FACTORS

Disclosures on risks affecting the New Shares are set out in Section II ("**Risk factors**").

3. ESSENTIAL INFORMATION

3.1 Working capital Statement.

With the information available to date, Banco Santander considers that its current working capital, together with the working capital that it expects to generate in the next twelve months, is sufficient to meet its operating requirements over that period.

3.2 Capitalisation and indebtedness.

In the period between 30 April 2017 and the date of approval of this Securities Note, there have not been any significant changes in the information on the Bank's capitalisation and indebtedness set out in this section, except as described in section 5.1.5 of the Share Registration Document.

3.2.1 Capitalisation

The shareholders' equity of the consolidated balance sheet for the Bank as of 30 April 2017 is set out in the following table:

Figures (millions)[(1)]	**30.04.2017**
Paid-up capital	7,291
Treasury shares	(14)
Reserves	97,755
Interim dividends	0
Accumulated other comprehensive income	(15,962)
Result attributable to the owners of the parent	2,527
Equity	91,598
Minority interests (non-controlling interests)	12,582

(1) Unaudited data.

As of 30 April 2017, the eligible equity of the Santander Group ("**Group**" and/or "**Santander Group**") exceeded the minimum requirements set down in the applicable regulations as of that date.

3.2.2 Indebtedness

The funding sources of the consolidated balance sheet for the Bank as of 30 April 2017 are set out in the following table:

Figures (millions)[(1)]	**30.04.2017**
Financial liabilities held for trading	**113,567**
Financial liabilities at fair value through profit or loss	**49,437**
Financial liabilities at amortised cost	**1,040,746**
Deposits	798,363
Central banks	*47,105*
Credit institutions	*88,642*

Figures (millions)[1]	30.04.2017
Customers	*662,616*
Debt securities issued	215,591
Other financial liabilities	26,792
Derivatives-hedge accounting	**7,140**
Changes in the fair value of hedged items of a portfolio hedged against interest rate risk	**458**
Liabilities under insurance and reinsurance contracts	**660**
Provisions	**14,372**
Taxes payable	**8,663**
Other liabilities	**10,070**
TOTAL LIABILITIES	**1,245,113**

(1) Unaudited data.

At 30 April 2017, the Group also has contingent guarantees and commitments granted for an amount of EUR 42.575 billion and EUR 231.99 billion, respectively.

3.3 Interest of natural and legal persons involved in the issue/offer.

Banco Santander, Citigroup Global Markets Limited and UBS Limited will act as Global Coordinators (all of them, jointly, are the "**Global Coordinators**") of the Capital Increase, while BNP PARIBAS, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, Morgan Stanley & Co International plc, Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A. (in collaboration with Banco Português de Investimento, S.A.), Banca IMI, S.p.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Mediobanca Banca di Credito Finanziario S.p.A., RBC Europe Limited, Société Générale, Wells Fargo Securities, LLC and Jefferies International Limited will act, together with the Global Coordinators (except for Banco Santander), as joint bookrunners and underwriters ("**Joint Bookrunners**" or the "**Underwriters**") of the Capital Increase.

The Underwriters and other entities of their groups, currently provide, and may in provide in the future, investment, retail and commercial banking services and other services for the Bank and its Group, for which they have received, and will continue to receive, customary fees and expenses for such services. Likewise, in the ordinary course of their businesses, the Underwriters and other entities of their groups hold, and may hold in the future, shares in Banco Santander or debt instruments issued by Banco Santander or other entities of its Group, including Banco Popular.

Amongst others services or relationships, and in an non-exhaustive manner, (i) Citigroup Global Markets Limited has advised Banco Santander in the acquisition of 100% of the share capital of Banco Popular, (ii) an Argentine subsidiary of the Bank acquired in the first quarter of 2017 the retail portfolio in that country of Citibank NA, or (iii) on 30 June 30 2017 Banco Popular announced the appointment of Morgan Stanley as advisor in relation to the process of

finding partners for a portfolio of foreclosed assets and real estate non-performing loans for a gross book value of approximately EUR 30,000 million.

The Bank is not aware of any significant link or economic relationship between Banco Santander and the entities, other than Banco Santander, that take part in the Capital Increase, and that are set out in section 10.1 of this Securities Note, except for their strictly professional relationship deriving from the advice described in the aforementioned section and the references made in this section.

3.4 Reasons for the offer and use of proceeds.

The purpose of the Capital Increase is to enhance and optimise the Bank's own funds structure to ensure adequate coverage of the acquisition of 100% of the share capital of Banco Popular. Banco Santander aims to allocate the funds resulting from the Offering for general corporate purposes related to the acquisition of Banco Popular.

The objective of the Santander Group's capital management is to ensure adequate solvency and sufficient funds to manage the growth of its balance sheet. Furthermore, it aims to optimize the cost of such funds and promote an adequate return for the shareholders. Accordingly, Santander Group is adapting its capital structure employing the most appropriate instruments.

For further information, see section 13 of the Share Registration Document.

4. INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ADMITTED TO TRADING

4.1 A description of the type and the class of the securities being offered and/or admitted to trading, including the ISIN (international security identification number) or other such security identification code.

The New Shares are ordinary shares of Banco Santander with a nominal value of fifty euro cents (EUR 0.50) each, all of the same class and series as the Bank's existing shares, represented in book-entry form.

With the exception of the New Shares, all of the Bank's shares are currently listed on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Spanish Electronic Stock Market Interconnection System (Continuous Market) (the "**Spanish Stock Exchanges**") and, elsewhere, on the Stock Exchanges of Lisbon, London –through Crest Depositary Interests ("**CDIs**")–, Milan, Buenos Aires, Mexico, Warsaw, New York –through American Depositary Shares ("**ADSs**")– and São Paulo –through Brazilian Depositary Receipts ("**BDRs**")–.

The ISIN Code of Banco Santander outstanding shares is ES0113900J37.

The National Numbering Agency, an entity within the CNMV, has assigned the provisional ISIN code ES0113902300 to the New Shares, until they become equivalent to the Bank's outstanding shares. Once the New Shares are admitted to trading, all Banco Santander shares will have the same ISIN Code.

The ISIN Code of the pre-emptive subscription rights is ES06139009P1.

4.2 Legislation under which the securities have been created.

The Bank's shares are subject to the provisions of Spanish legislation and, particularly, the provisions of the amended Companies Law, approved by Legislative Royal Decree 1/2010, of 2 July (the "**Companies Law**") and the amended Securities Market Act, approved by Legislative Royal Decree 4/2015, of 23 October (the "**Securities Market Act**"), and applicable implementing regulations.

The public offering resulting from the Capital Increase, including the exercise of pre-emptive subscription rights, the request for Additional Shares (as defined below) and subscription requests for Discretionary Allocation Shares (as defined below) shall be governed and interpreted in accordance with Spanish legislation. By exercising pre-emptive subscription rights, the request for Additional Shares and subscription requests for Discretionary Allocation Shares, shareholders and investors irrevocably and unconditionally accept that the Courts and Tribunals of the city of Santander shall have exclusive jurisdiction to resolve any disputes that might arise in relation to this public offering and Capital Increase. Notwithstanding the foregoing, the Bank and the Underwriters have agreed to submit any dispute which may arise under the Underwriting Agreement to the non-exclusive jurisdiction of the Courts and Tribunals of the city of Madrid.

4.3 An indication whether the securities are in registered form or bearer form and whether the securities are in certificated form or book-entry form. In the latter case, name and address of the entity in charge of keeping the records.

The Bank's shares are represented by book entries and are registered in the accounting records of the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* ("**Iberclear**"), with registered office at Plaza of the Lealtad 1, 28014, Madrid, and of its authorised participant entities (the "**Participant Entities**").

The Bank's shares listed on the London stock exchange are represented by Crest Depositary Interests or CDIs; those on the New York stock exchange are represented by American Depositary Shares or ADSs; and those on the São Paulo stock exchange are represented by Brazilian Depositary Receipts or BDRs.

4.4 Currency of the securities issue.

The Bank's shares are denominated in euros (EUR or €).

4.5 A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights.

The New Shares are ordinary shares; there are currently no other types of shares representing the Bank's capital. The New Shares shall therefore enjoy the same economic and voting rights as all other shares of the Bank from the date on which the Bank's Capital Increase through the New Shares is declared to be subscribed and paid up by the board of directors or, in its place, the executive committee (expected to be on 27 July 2017) (the "**Execution Date**")

More precisely, it is worth mentioning the rights that follow, in the terms foreseen in the bylaws of the Bank and, as the case may be, in the applicable legislation:

4.5.1 Dividend rights:

A. Date or dates on which dividend rights accrue

The News Shares grant their owners the same right to participate in the distribution of corporate earnings and net assets resulting from liquidation under the same conditions as the Bank's other ordinary outstanding shares. As with the other shares making up the share capital, they do not grant a right to a minimum dividend, as they are all ordinary shares. In the past, Banco Santander has paid its shareholders in cash on a quarterly basis, and intends to continue doing so. Since 2009, the Bank has applied its flexible remuneration programme - *Santander Dividendo Elección* (scrip dividend) - on some or all of its traditional payment dates for cash dividends. This programme offers the Bank's shareholders the option to decide whether to receive their payment in cash or in new shares of Banco Santander, an option that offers favourable tax treatment.

The New Shares give shareholders a right to participate in the dividends, remuneration and any other form of distribution that Banco Santander might agree or pay to its shareholders from the Execution Date.

On the issue date of this Securities Note, there are no dividends pending payment to Banco Santander’s shareholders for periods ended prior to 1 January 2017.

On 4 August 2017 a first interim dividend of EUR 0.06 gross per share charged against the 2017 year will be paid. The New Shares issued under this Capital Increase shall be entitled to receive it.

B. Time limit after which entitlement to dividend lapses and an indication of the person in whose favour the lapse operates

Returns on the Bank's shares shall be delivered in the form announced in each case. The time limit for entitlement to dividends shall be as set down in article 947 of the Commercial Code: i.e. five years. The Bank shall be the beneficiary of this time limit.

C. Dividend restrictions and procedures for non-resident holders

The Bank is not aware of any restrictions on the collection of dividends by non-resident holders, without prejudice to any withholdings for non-resident income tax (refer to section 4.11 of this Securities Note).

D. Rate of dividend or method of its calculation, periodicity and cumulative or non-cumulative nature of payments

As with the Bank's existing shares, the New Shares do not give their holders any right to a minimum dividend, as they are all ordinary shares. Therefore, the right to a dividend for these shares shall only arise from the moment that the annual general meeting or board of directors, as the case may be, agrees a distribution of earnings.

4.5.2 Voting rights.

The New Shares are ordinary shares with voting rights. Their owners are entitled to attend and vote at general shareholders' meetings, and also to contest corporate resolutions, as provided for under the general regime of the Companies Law, and subject to the provisions set forth under the bylaws of Banco Santander, and the applicable law, as the case may be, as set out below.

With regard to the right to attend the general shareholders' meetings, the first paragraph of article 26.1 of the Bank's bylaws establishes that:

> "*The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders' meetings.*"

The Bank's shareholders may have themselves represented by another person, shareholder or not.

The bylaws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. The attendees at the general shareholders' meeting are entitled to one vote for every share held, as stipulated in the first sentence of article 35.4 of the Bank's bylaws:

> "*The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent.*"

Notwithstanding the aforementioned, in certain circumstances mandatory restrictions on voting may be applicable to ordinary shares of the Bank to the extent the holders thereof may be affected by certain conflicts of interest as provided for under article 190.1 of the Companies Law. In addition, according to Law 10/2014, of June 26, on the regulation, supervision and capital adequacy of credit institutions, beneficiaries of variable remuneration in excess of 100% of their fixed remuneration (and up to 200% of said fixed remuneration) whose professional activities have a material impact on the risk profile of the institution, its group, parent company or subsidiaries shall be prohibited from voting, directly and indirectly, any voting rights they hold as a shareholder regarding the specific shareholders meeting item that relates to the approval of said remuneration.

4.5.3 Pre-emptive rights in offers for subscription of securities of the same class.

Pursuant to the Companies Law, all Bank's shares grant their holders a pre-emptive subscription right in capital increases with issue of new shares (ordinary and pre-emptive), charged against cash contributions, and in the issue of bonds convertible into shares, except in the event of the total or partial exclusion of that pre-emptive subscription right as provided for under articles 308, 504, 505 and 506 (for capital increases), and 417 and 511 (for issues of convertible bonds) of the Companies Law.

Holders of all Bank shares are also entitled to the free allocation right set forth in the Companies Law in the case of increases in fully-paid up share capital.

The Bank's general shareholders' meeting held on 7 April 2017 authorised the Board of Directors, under point five on the agenda, to increase its share capital within a maximum of

three years, through one or more such increases, charged against cash contributions, and up to half of its share capital on the date of that resolution. This authorisation includes the power to exclude pre-emptive subscription rights up to a maximum of 20% of the Bank's share capital on the date of adoption of that resolution, with delegated authority in favour of the executive committee.

4.5.4 Right to share in the issuer's profits.

All of the Bank's shares grant their owners the right to share in its profits, in proportion to their nominal value, as set out in section 4.5.1.

4.5.5 Rights to share in any surplus in the event of liquidation.

The New Shares are ordinary shares in the Bank, and belong to the same class and series as the shares currently outstanding. Therefore, the New Shares grant the right, from the Execution Date, to share in any surplus resulting from liquidation, in the same terms and conditions as the Bank's outstanding shares, pursuant to the Companies Law and the Bank's bylaws.

4.5.6 Right to information.

Holders of the Bank's shares have the right to information as provided for in articles 93.d), 197 and 520 of the Companies Law, and also those rights, such as special forms of the right to information detailed in that law and the Law 3/2009, of April 3, on structural amendments of mercantile companies, when these involve the amendment of bylaws, increases and reductions in share capital, approval of the annual accounts, issuances of bonds, whether convertible into shares or not, transformation, mergers and spin-offs, winding-up and liquidation of the Bank, the global assignment of assets and liabilities, international transfers of the registered offices and other corporate acts and operations.

From the date of the publication of the call notice of the general shareholders' meeting to the fifth day prior to the meeting at first call, inclusive, the Bank's shareholders may request, in writing, information and clarification with regard to items on the agenda, and on information disclosed to the public through the CNMV since the last general shareholders' meeting and on the report by the Bank's external auditor. These rights are set down in article 31 of the Bank's bylaws and article 7 of the Rules and Regulations of the Bank's general shareholders' meeting.

The directors are obliged to provide the information requested in the form, and in the periods, set down in the law, except when: (i) it is requested by shareholders representing less than 25% of the share capital and the information is not necessary to uphold the rights of the shareholder or there are objective reasons to consider that it could be used for purposes unrelated to the Company, or its disclosure could harm the Bank or related companies; (ii) the request for information or clarification does not relate to items on the agenda or information available to the public provided by the Bank to the CNMV since the date of the last general shareholders' meeting or the report by the Bank's external auditor; (iii) for any reason, the information or clarification is unnecessary to form an opinion on the issues submitted to the Meeting, or if, for whatever reason, it could be considered abusive; (iv) prior to formulation of the specific question by the shareholders, the information was clearly and directly available to all shareholders on the Bank's website (www.santander.com) in Q&A format – in which case the directors may limit themselves to referring to the information available in that

format, pursuant to article 520.3 of the Companies Law –; or (v) this would be contrary to legal or bylaw provisions. In particular, article 197 of the Companies Law states that it is legitimate to reject a request for information when the information is "*unnecessary to uphold the rights of the shareholder or there are objective reasons to consider that it could be used for purposes unrelated to the company, or its disclosure could harm the company or related companies*".

Furthermore, and pursuant to the Companies Law, article 31 of the Bank's bylaws and article 18 of the Rules and Regulations of the Bank's general shareholders' meeting, shareholders may request information or clarification verbally during the meeting on items on the agenda, relating to information available to the public disclosed by the Bank to the CNMV since the last general shareholders' meeting and on the report by the Bank's external auditor. If the directors cannot provide the information requested during the meeting, they shall provide it in writing within seven days of the end of the meeting. The directors shall be obliged to provide the information, except in the cases set down in the preceding paragraph.

4.5.7 Redemption provisions.

Not applicable.

4.5.8 Conversion provisions.

Not applicable.

4.6 In the case of new issues, a statement of the resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued.

4.6.1 Corporate resolutions.

The New Shares shall be issued under the following resolutions:

(i) Resolution five of the Bank's general shareholders' meeting held at second call on 7 April 2017, authorising the board of directors, pursuant to article 297.1.b) of the Companies Law, to increase share capital, on one or more occasions and at any time, within a period of three years, posted against cash contributions and up to a maximum nominal amount of EUR 3,645,585,175, subject to the terms and conditions deemed appropriate, and delegating the power to exclude pre-emptive subscription rights, pursuant to article 506 of the Companies Law, although limited to increases of share capital carried out under the aforementioned authorisation up to EUR 1,458,234,070.

It is hereby placed on record that the Bank's board of directors has not yet used this delegated power. Thus, the board (or the executive committee, as the case may be) may make use of all of the approved increase in share capital, and may do this excluding, totally or partially, the pre-emptive subscription right pursuant to article 506 of the Companies Law, amounting to EUR 3,645,585,175 and EUR 1,458,234,070, respectively.

(ii) Resolution of the Bank's board of directors of 26 June 2017, under which, pursuant to the authorisation granted to the board of directors by the general shareholders' meeting held on 7 April 2017, it was agreed to delegate the powers received under the resolution set out in section (i) above to the executive committee.

(iii) Resolution of the Bank's executive committee of 3 July 2017, approving use of the authorisation granted to the board of directors by the annual general meeting held on 7 April 2017 to increase the share capital of Banco Santander through the issue and placement into circulation of the New Shares: i.e. 1,458,232,745 shares with a nominal value of fifty euro cents (EUR 0.50) each, all of the same class and series as the shares currently outstanding, allowing the possibility that the subscription may not be complete (the Capital Increase). The Capital Increase has been agreed with a pre-emptive subscription right in favour of Banco Santander shareholders.

4.6.2 Authorisations.

Pursuant to Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, the Capital Increase does not require prior authorisation from the European Central Bank, although it must be disclosed to the Bank of Spain for registration with its Register of Credit Entities, within fifteen working days of the resolution to change the bylaws. Pursuant to this requirement, Banco Santander shall disclose the Capital Increase to the Bank of Spain within the timescale legally defined. Furthermore, and with the purpose of the New Shares to qualify as common equity tier 1 -CET 1-, the Bank must obtain the authorisation of the European Central Bank pursuant to article 26.3 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Furthermore, the issue and admission to trading of the New Shares is subject to the general approval and registration regime of the CNMV, as set down in the Securities Market Act and its implementing regulations.

4.7 The expected issue date of the securities.

The New Shares are planned to be issued on 27 July 2017 (the date on which the deed for the Capital Increase is also expected to be registered with the Mercantile Registry), as set out in section 5.1.8 below.

Once the deed for the Capital Increase has been registered with the Mercantile Registry, notarised evidence of the deed will be delivered to the CNMV, Iberclear, the Madrid Stock Exchange and the Bank of Spain.

4.8 A description of any restrictions on the free transferability of the securities.

The bylaws of the Bank do not contain any restrictions on the free transferability of shares representing its share capital. Transfers will take place by accounting transfer. Transfers registered in the name of the acquirer have the same effects as the transfer of the securities.

Nevertheless, as a credit entity, the direct or indirect acquisition of holdings in the share capital of Banco Santander which are considered to be significant from a legal perspective (as this is defined below) requires prior notification and a declaration of non-opposition (through the Bank of Spain) from the European Central Bank (which has the decision making competence of the Bank of Spain pursuant to articles 4.1.c and 6.4 of Regulation (EU) No. 1024/2013, of the Council, of 15 October 2013, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions), in accordance with Law 10/2014. Pursuant to article 16.1 of the aforementioned Law, a

"significant" shareholding is one that represents at least 10% of the capital or voting rights of a credit entity, directly or indirectly. Shareholdings that enable significant control over a credit entity are also considered material, even if they do not reach this percentage. Pursuant to article 23 of Royal Decree 84/2015, the ability to appoint or remove a member of the board of directors of a credit entity is understood to represent significant influence.

Any acquisition of a shareholding in excess of 5% but less than 10% of capital or voting rights that does not allow the holder to exercise significant influence only requires subsequent notification to the supervisor.

It is also required (i) the prior notification and declaration of non-opposition of the European Central Bank (through the Bank of Spain), to increases in a significant shareholding in excess of 20%, 30% or 50% of the capital or voting rights of a credit entity or in which control could be exerted over that credit entity; and (ii) the prior notification to the supervisor of reductions in the shareholding that could entail falling below the above thresholds (20%, 30% and 50%), relinquishing control of the entity or losing the significant shareholding in the entity.

As a credit entity and in those countries where the European Central Bank is not the supervisory authority, or because it entails an indirect transfer of a shareholding in a regulated entity (such as banks, insurance entities or investment services companies) controlled or participated by the Bank, the transfer of the Bank's shares may also require additional authorisations.

4.9 An indication of the existence of any mandatory takeover bid and/or squeeze-out and sell-out rules in relation to the securities.

There are no special regulations on mandatory takeover bids or squeeze-out and sell-out rules for the Bank's shares, except those deriving from regulations on public takeover bids set down in the Securities Market Law and its implementing regulations (currently, Royal Decree 1066/2007, of 27 July, on public takeover bids).

4.10 An indication of public takeover bids by third parties in respect of the issuer's equity, which have occurred during the last financial year and the current financial year. The price or exchange terms attaching to such offers and the outcome thereof must be stated.

There have been no public takeover bids for the Bank's shares during the current or previous year.

4.11 In respect of the country of registered office of the issuer and the country(ies) where the offer is being made or admission to trading is being sought

4.11.1 Information on taxes on income from the securities withheld at source.

The following section is a general description of the tax regime applicable under Spanish legislation in effect (and in force implementing regulations) at the date of approval of this Securities Note, to the acquisition, ownership and, as the case may be, subsequent disposition of the New Shares.

This analysis does not address all of the potential tax consequences of the aforementioned transactions, or the regime applicable to all categories of investors, some of whom (such as, financial institutions, collective investment undertakings, cooperatives and look-through

entities, etc.) may be subject to special rules. In addition, this description does not consider regional tax regimes in force applicable in the Historical Territories of the Basque Country and the Historical Autonomous Region of Navarre ("Concierto" and "Convenio Económico", respectively) or the regulations adopted by the different Spanish Autonomous Regions that may apply to investors regarding particular taxes.

In particular, the applicable rules are set forth in: Law 35/2006, of 28 November, on the Personal Income Tax and on the partial amendment of the Corporate Income Tax, Non-resident Income Tax and Wealth Tax Law(the "**PIT Law**") and its implementing regulations, as approved by Royal Decree 439/2007, of 30 March; the amended Non-resident Income Tax Law ("**NRIT Law**") approved by Royal Legislative Decree 5/2004, of 5 March, and its implementing regulations, as approved by Royal Decree 1776/2004, of 30 July; Law 27/2014, of 27 November on Corporate Income Tax "the **CIT Law**"; and Royal Decree 634/2015, of 10 July, approving the Regulations for the CIT Law.

Investors are advised to consult their tax advisors or lawyers concerning the specific tax consequences in light of their particular circumstances.

Likewise, investors should consider any potential changes to the legislation currently in effect occurring in the future, and on the interpretations that may be made on such legislation by the Spanish tax authorities, which could differ from the interpretation set out below.

(1) Indirect taxation on the acquisition and disposition of the New Shares

The subscription and, as the case may be, subsequent disposition of the New Shares is exempt from Transfer Tax, Stamp Duty and Value Added Tax.

(2) Direct taxation on the ownership and subsequent disposition of the New Shares

(i) SHAREHOLDERS RESIDENT IN SPANISH TERRITORY

This section considers the tax treatment applicable to investors considered resident in the Spanish territory for tax purposes. In general, and without prejudice to the provisions of the Double Taxation Treaties ("**DTTs**") entered into by Spain, investors considered to be resident in Spain for these purposes include entities resident in Spain pursuant to article 8 of the CIT Law and individuals whose permanent available home is in Spain, as defined in article 9.1 of the PIT Law, together with those resident abroad who are members of Spanish diplomatic missions, Spanish Consuls and other official bodies, as set down in article 10.1 thereof. Likewise, investors considered resident in Spain for tax purposes also include individuals with Spanish nationality who, while ceasing their tax residency in Spain, demonstrate their new tax residency to be in a tax haven, during the tax period in which the change of residence takes place and the following four periods.

Individuals who acquire tax residency in Spain as a result of moving to Spanish territory may opt to pay Personal Income Tax ("**PIT**") or Non-Resident Income Tax ("**NRIT**") during the period in which the change of residency takes place, and the five subsequent years, providing the requirements set forth in article 93 of the PIT Law are met.

(a) Spanish resident individuals

(a.1) Personal income tax

(a.1.1) Capital income

Pursuant to article 25 of the PIT Law, capital income shall be considered to include dividends, considerations paid for attending at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the New Shares and, in general, the participation in the Bank's profits, and any other income received from the entity in his or her position as shareholder of the Bank.

Capital income obtained by the shareholder as a result of ownership of the New Shares shall be deducted by any administration and custody expenses from the gross income received, but not by those discretionary or individualised portfolio management expenses. This net amount shall be included in the taxable base for capital income of the year in which it is due, taxed at a fixed rate of 19% (for the first EUR 6,000 of capital income obtained by the individual), 21% (for income of between EUR 6,000.01 and EUR 50,000) or 23% (for income in excess of EUR 50,000).

The amount obtained through the distribution of the issue premium for shares admitted to trading on any of the regulated securities markets defined in Directive 2004/39/EC, of the European Parliament and the Council, of 21 April 2004 (such as the New Shares) shall reduce, until cancellation, the acquisition value of the specific shares. The excess over that acquisition value will be taxed as capital income in the terms set out in the preceding paragraph.

In addition, shareholders shall, in general, be liable for a PIT withholding at a rate of 19% on the full amount of profit distributed in the 2017 tax year. This withholding shall be creditable from the PIT payable. If the amount of PIT payable is less than the PIT withholding, it shall give rise to the refund provided for in article 103 of the PIT Law. As an exception, PIT withholding is not applied on distributions of share premium.

(a.1.2) Capital gains and losses

Any change in the value of the assets owned by PIT taxpayers resulting from any alteration in such assets may give rise to capital gains or losses which, in the event of the transfer of New Shares for valuable consideration, shall be calculated as the negative or positive difference between the acquisition value of the securities and their transfer value, determined by: (i) the listed value of the shares as of the transfer date; or (ii) the agreed transfer price, when this exceeds the listed value of the shares.

Where the PIT taxpayer owns other securities of the same kind, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first.

Both the acquisition and transfer values are increased or reduced, respectively, by the costs and taxes inherent to such transactions borne by the acquirer or transmitter, respectively.

Capital gains or losses derived from the transfer of the New Shares shall be included and offset in the savings taxable base of the tax period in which the transfer takes place, being taxed in the 2017 tax year at a rate of 19% for the first EUR 6,000 of investment income

obtained by the individual; 21% for income of between EUR 6,000.01 and EUR 50,000; and 23% for income in excess of EUR 50,000.

Capital gains derived from transfer of the New Shares are not subject to withholding tax. Finally, certain losses derived from the transfer of the New Shares will not be treated as capital losses when identical securities are acquired during the two months prior or subsequent to the transfer date which originated that loss. In such cases, capital losses shall be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

(a.1.3) Subscription rights

From 1 January 2017, the proceeds obtained from the transfer of subscription rights of the Bank's shares shall be regarded as capital gains for the transferor corresponding the tax period in which the transfer takes place, being subject to PIT withholding at the current rate of 19% to be levied by the depositary entity or, in the absence thereof, by the financial intermediary or notary public that intervenes in the transfer.

Such capital gain derived from transfer of subscription rights corresponding to the New Shares shall be included and offset in the savings taxable base, being taxed in the 2017 tax year at a fixed rate of 19% for the first EUR 6,000 of investment income obtained by the individual; 21% for income between EUR 6,000.01 and EUR 50,000; and 23% for income in excess of EUR 50,000.

(a.2) Wealth Tax

Individual shareholders who are resident in the Spanish territory shall be subject to Wealth Tax on their total net wealth at 31 December, irrespective of where their assets might be located or rights might be exercised.

This taxation shall be imposed pursuant to Law 19/1991, of 6 June, on Wealth Tax ("**the Wealth Tax Law**") which, for these purposes, sets a minimum tax-free allowance of EUR 700,000, in accordance with a tax scale with marginal rates ranging between 0.2% and 2.5%, without prejudice to specific rules that may have been approved by the Spanish Autonomous Regions.

Individuals resident for tax purposes in Spain who acquire the New Shares and who are required to file Wealth Tax returns must declare the New Shares they hold at 31 December of each year, which shall be valued using the average trading price in the last quarter of the year. The Ministry of Finance and Public Administrations publishes annually this average trading price for the Wealth Tax purposes.

Pursuant to article 4 of Royal Decree-Act 3/2016, of 2 December, adopting measures in the field of taxation aimed at consolidating the public finances and other urgent social measures ("**RDL 3/2016**"), from 1 January 2018 a full exemption shall apply, and it will be no longer mandatory to file a self-assessment or a tax return.

(a.3) Inheritance and Gift Tax

The transfer of shares by inheritance or gift in favour of individuals who are resident in Spain is subject to Inheritance and Gift Tax ("**IGT**") in accordance with Law 29/1987, of 18 December. The acquirer of the securities is liable for this tax. Without prejudice to specific rules approved in each Spanish Autonomous Region, the tax rate applicable to the taxable

base ranges from 7.65% to 34%; the effective tax rate would depend on specific factors, such as the wealth of the taxpayer and the degree of their kinship with the deceased or the donor, and, as a result, the effective tax rate may vary from between 0% to 81.6%.

(b) Corporate Resident Shareholders

(b.1) Corporate income tax

(b.1.1) Dividends

CIT taxpayers and NRIT taxpayers who act in Spain for these purposes through permanent establishments shall include the gross amount of dividends or interest in profits received as a result of ownership of the securities acquired, and the costs inherent to this interest, in their taxable base, in accordance with article 10 and onwards of the CIT Law. The general tax rate applicable to this income is 25%. In the event of a distribution of share premium, the amount received by CIT taxpayers shall reduce, until cancellation, the acquisition value of the specific shares. The excess over that acquisition value will be included in the taxable base as income.

However, as a general rule, dividends and interests in profits of a company could be entitled to an exemption from CIT, pursuant to article 21 of the CIT Law, to the extent that the percentage of the direct or indirect participation in the capital or equity of the entity is at least 5%, or if the acquisition value of the participation exceeds EUR 20 million. For this exemption to apply, the participation must be held uninterruptedly during the year prior to the day on which the dividend is distributed, or otherwise be held for the time needed to complete this period.

Should the Bank obtain dividends, interest in profits of a company or income arising from the disposition of securities representing the capital or equity of entities to a value of more than 70% of its income, the application of this exemption is conditional on the compliance of complex requirements which, in essence, require the CIT-payer holder of the shares to have an indirect holding of at least 5% of the share capital of those entities, unless these subsidiaries meet the conditions referred to in article 42 of the Commercial Code to form part of the same group of companies of the direct subsidiary, and they prepare consolidated financial statements. Investors are advised to consult their tax advisors or lawyers to determine the compliance of the requirements to apply this exemption.

In addition, in the 2017 tax year, CIT taxpayers shall be subject to a withholding tax of 19% on the total profit distributed, unless any of the withholding exemptions set forth in prevailing regulations apply, in which case, no withholding tax shall be made. The distribution of share premium is not subject to withholding on account of CIT.

This withholding shall be creditable from the CIT payable and, should the latter be insufficient, it shall give rise to the refund provided for in article 127 of the CIT Law.

(b.1.2) Subscription rights

The allocation of subscription rights and their subscription as New Shares will not generate any income for CIT purposes.

Proceeds obtained from the transfer of subscription rights are not subject to CIT withholding. The accounting income obtained from the transfer of subscription rights is included in the taxable base, and taxed pursuant to general CIT rules.

(b.1.3) Income derived from transfers of the New Shares

Any gain or loss derived from the transfer of the New Shares, whether for valuable consideration or not, shall be included in the taxable base of CIT (or of NRIT for those taxpayers acting, for these purposes, through a permanent establishment in Spain), in accordance with article 10 and onwards of the CIT Law. The general tax rate applicable to this income is 25%. However, the deductibility of any losses that may be originated by the transfer of the New Shares may be subject to temporary or permanent restrictions. Investors are advised to consult their tax advisors or lawyers about the application of such restrictions in their particular case.

Income derived from the transfer of the New Shares shall not be subject to CIT withholding.

As a general rule, capital gains derived from the transfer of an interest in an entity may be entitled to a CIT exemption, pursuant to article 21 of the CIT Law, provided that the direct and indirect participation in the capital or equity of the entity is, at least, 5%, or if the acquisition value of the participation exceeds EUR 20 million. For this exemption to apply, this participation must be held uninterruptedly for the year prior to the day on which the transfer takes place.

Should the Bank obtain dividends, interest in profits of a company or income arising from the disposition of securities representing the capital or equity of entities to a value of more than 70% of its income, the application of this exemption is conditional on the compliance of complex requirements which, in essence, require the holder of the shares to have an indirect holding of at least 5% of the share capital of those entities, unless these subsidiaries meet the conditions referred to in article 42 of the Commercial Code to form part of the same group of companies of the direct subsidiary, and they prepare consolidated financial statements. Investors are advised to consult their tax advisors or lawyers to determine the compliance of the requirements to apply this exemption.

(b.2) Wealth Tax

CIT taxpayers are not subject to Wealth Tax.

(b.3) Inheritance and Gift Tax

CIT taxpayers are not subject to IGT, and income obtained through a gift is taxed pursuant to CIT rules.

(ii) SHAREHOLDERS NOT RESIDENT IN SPANISH TERRITORY

Without prejudice to the provisions of Section IV, this section analyses the tax treatment applicable to shareholders who are not resident in Spanish territory and are beneficial owners of the New Shares, excluding those who act in the Spanish territory through a permanent establishment, the tax treatment of which is described together with that of shareholders subject to CIT. Non-resident shareholders are individuals who are not PIT taxpayers and entities not resident in Spanish territory, pursuant to article 6 of the NRIT Law.

The tax regime described herein is general in nature, and the specific circumstances of each taxpayer should be considered in the light of the applicable DTT.

(c.1) Non-resident income tax

(c.1.1) Capital income

Dividends and other income from interest in the equity of an entity obtained by non-resident individuals and entities that are not resident in Spain and that do not act through a permanent establishment in the Spanish territory shall be subject to NRIT taxation in the 2017 tax year at the general rate of 19% of the gross income obtained. The amount obtained through the distribution of the issue premium for shares admitted to trading on any of the regulated securities markets defined in Directive 2004/39/EC, of the European Parliament and the Council, of 21 April 2004 (such as the New Shares), shall reduce until cancellation, the acquisition value of the relevant shares, with only the excess being taxed as capital income.

However, profits distributed by subsidiaries resident in the Spanish territory to parent companies resident in other member states of the European Union, or the permanent establishments of these located in other member states, shall be exempt when the following requirements are met:

1. Both companies are taxpayers for, and not exempt from, any of the taxes levied on legal entities in member states of the European Union, according to article 2.c) of Directive 2011/96/EU, of the Council, of 30 June 2011, with regard to the regime applicable to parent companies and subsidiaries in different member states, and the permanent establishments are subject to, and not exempt from, taxation in the state in which they are located;
2. The distribution of profits is not due to the liquidation of the subsidiary company;
3. Both companies are in one of the forms set forth in the Annex to Directive 2011/96/EU, of the Council, of 30 June 2011, on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, as amended by Directive 2014/86/EU, of the Council, of 8 July 2014.

A company is considered to be a parent company when it owns a direct or indirect participation of at least 5% in the share capital of the other company, or the acquisition value of its interest in that company exceeds EUR 20 million. The other company is deemed a subsidiary. This interest must have been held uninterruptedly during the year prior to the date on which the profit has been distributed or becomes payable or, otherwise, the participation must continue to be held for the period needed to complete one year.

This exemption shall also apply to profits distributed by subsidiaries resident in the Spanish territory to parent companies resident in member states of the European Economic Area, and the permanent establishments of such parent companies located in other member states, provided that the requirements set forth in the NRIT Law are met.

This exemption does not apply if the dividend is obtained through a territory which qualifies as a tax haven. The exemption does not apply either if the majority of the voting rights of the parent company are held, directly or indirectly, by legal entities or individuals who are not resident in member states of the European Union or the European Economic Area with which Spain has an effective exchange of taxation information, pursuant to section 4 of the first additional provision of Law 36/2006, of 29 November, on measures for the prevention of

fiscal fraud, except when the constitution and operation of such parent company is due to valid economic reasons and substantive business purposes.

Furthermore, as provided for under the NRIT Law, dividends received by Pension Funds and by Collective Investment Institutions which are resident in another member state of the European Union or the European Economic Area are exempt (although if this exemption is applied to Collective Investment Institutions, it cannot give rise to a lower amount of tax due than would have been calculated for this income according to the tax rate applicable to Collective Investment Institutions resident in Spain under CIT). Such entities are advised to consult their advisors about the conditions for the application of these exemptions in Spain.

As a general rule, the Bank will apply NRIT withholding of 19% on dividend payments. Distributions of share premiums are not subject to withholding on account of NRIT.

However, when a DTT applies based on the tax residency of the recipient, the exemption or reduced tax rate established in the DTT for such income shall apply, upon the taxpayer's evidence of their tax residency, in the form established in the corresponding legislation. For this purpose, a special procedure approved by Order of the Ministry of Finance and Treasury, on 13 April 2000 is applicable to make any withholding at the corresponding rate for non-resident shareholders, and for the exclusion of the withholding, when the payment procedure involves financial entities domiciled, resident or represented in Spain that are depositaries or which manage the collection of income from such securities. .

Pursuant to this regulation, upon distribution of the dividend, the Bank will withhold on the gross income of the dividend a rate of 19% in 2017 and transfer the resulting net amount to the depositary. Depositary which gives evidence in the established form the right to the entitlement to the application of reduced rates or exclusion of withholding from the non-resident shareholders shall immediately receive the excess amount withheld, for subsequent distribution to their customers. To this end, the non-resident shareholders must, before the 10th of the month following the distribution of the dividend, provide the depositary with a certificate of tax residency issued by the relevant tax authority of their country of residence, stating that the investor is resident in such country the terms defined in the relevant DTT. In cases in which a reduced tax rate is provided by a DTT pursuant to an Order establishing the use of a specific form, this form must be delivered instead of the certificate. Such tax residency certificates are generally valid for one year from the date of issue for these purposes, and must refer to the tax period in which the dividend is distributed.

When an exemption or reduced withholding tax rate under a DTT is applicable, and the shareholder does not give evidence of its tax residency in a timely manner, the shareholder may request the Spanish tax authorities the refund of the amount withheld in excess, following the procedure and using the form stipulated in Spanish Order EHA/3316/2010, of 17 December 2010. This procedure will also be applicable to Pension Funds and Collective Investment Institutions resident in another member state of the European Union or of the European Economic Area whose dividends are exempt from NRIT, for the purposes of requesting the refund on the withholding on account of NRIT applied by the Bank to these dividends. Shareholders are advised to consult their tax advisors or lawyers about the procedure to request the refund from the Spanish tax authorities.

In any case, if the NRIT withholding has been already made or the entitlement to the exemption has been recognised, non-resident shareholders are not required to file a tax return for NRIT purposes in Spain.

Investors are advised to consult their tax advisors or lawyers about the procedure to request any refund from the Spanish tax authorities.

(c.1.2) Capitsl gains and losses

Pursuant to the NRIT Law, capital gains derived from transfer of the New Shares, or any other capital gain related to such securities by legal entities or individuals who do not act through a permanent establishment in Spain shall be subject to NRIT, being the tax payable calculated, generally, in accordance with the rules set forth in PIT Law. In particular, capital gains derived from transfer of the shares shall be subject to NRIT at the rate of 19% in the 2017 tax year, unless an domestic exemption or a DTT applies, in which case the provisions of the DTT shall prevail.

Under Spanish tax law, the following capital gains will be exempt:

(i) Capital gains derived from the transfer of the New Shares in official secondary markets for Spanish securities which have not been obtained through a permanent establishment in Spain by individuals and entities resident in a jurisdiction that has signed a Double Taxation Agreement with Spain including an information-exchange clause, to the extent that they have not been obtained through countries or jurisdictions officially defined as a tax haven.

(ii) Capital Gains derived from the transfer of the New Shares which have not been obtained through a permanent establishment in Spain by individuals and entities resident for tax purposes in other member states of the European Union, or permanent establishments of these resident in another European Union member state, provided that they have not been obtained through countries or jurisdictions officially qualifying as tax havens. This exemption does not apply to capital gains resulting from the transfer of shares or rights of an entity: (i) when the assets of that entity comprise, mainly, real estate property located in the Spanish territory, whether directly or indirectly; (ii) in the case that the transferor is a non-resident individual at any time during the twelve months prior to the transfer, when the transferor holds an interest, directly or indirectly, of 25% of the capital or equity of the company; and (iii) in the case that the transferor is a non-resident company, when the transfer does not meet the requirements for application of the exemption set down in article 21 of the CIT Law.

The capital gain or loss shall be calculated and taxed separately for each transfer. Offsetting of gains and losses from different transfers is not permitted. The tax shall be calculated applying the rules set out in article 24 of the NRIT Law.

As from 1 January 2017, proceeds obtained from the transfer of subscription rights related to the New Shares shall be regarded as capital gains for the transferor in the tax period in which the transfer takes place, and shall be taxed according to the criteria set out above.

Pursuant to the NRIT Law, capital gains obtained by non-residents who do not act through a permanent establishment are not subject to withholding on account of NRIT.

Non-resident shareholders shall be obliged to file a tax return, calculating and paying, as applicable, the resulting tax due. This tax return may also be filed, and the tax paid, by the taxpayer's tax representative in Spain, the depository or the manager of the shares, applying the procedure and the tax return set out in Order EHA/3316/2010, of 17 December 2010.

In the event that an exemption applies, whether under Spanish law or through a DTT, the non-resident investor must provide evidence of his/her/its right by providing a certificate of tax residency duly issued by the tax authorities of his/her/its country of residence (which must state, as the case may be, that the investor is resident in that country within the meaning of the applicable DTT) or the form stipulated in the Order implementing the applicable DTT. Such tax residency certificates are generally valid for one year from the date of issue for these purposes, and must refer to the tax period in which the capital gain is made.

(c.2) Wealth Tax

The assets and rights of individuals whose permanent residency is not in Spanish territory pursuant to article 9 of the PIT Law, and who own assets and rights that can be exercised or have to be met in Spanish territory on 31 December of each year shall be subject to Wealth Tax. However, taxpayers may deduct the minimum allowance of EUR 700,000, being applicable the general scale for the tax, which ranges from 0.2% to 2.5% in 2017.

The Spanish tax authorities consider that the shares of Spanish companies are assets located in Spain for tax purposes.

If subject to Wealth Tax, the tax on New Shares admitted to trading on an official Spanish secondary market owned by non-resident natural persons shall be calculated using the average trading price in the last quarter of each year. The Ministry of Finance and Public Administrations publishes annually this average trading price for tax purposes.

Pursuant to article 4 of RDL 3/2016, from 1 January 2018, a full exemption shall be applied, with no obligation to file a self-assessment or tax return of any kind.

Individuals resident in a member state of the European Union or the European Economic Area shall be entitled to apply the specific rules adopted by the Spanish Autonomous Region in which the assets or rights with more value and subject to the tax are located. Investors are advised to consult their tax advisors or lawyers.

Finally, entities that are not resident in Spain are not subject to this tax.

(c.3) Inheritance and Gift Tax

Without prejudice to the provisions of DTT, acquisitions through by inheritance or gift by individuals who are not resident in Spain, irrespective of the residency of the transferor, shall be subject to IGT, when the acquisition involves assets located in Spanish territory or rights that can be exercised or have to be complied with in this territory. The Spanish tax authorities consider that the shares of Spanish companies are assets located in Spain for tax purposes.

The acquisition of assets and rights through inheritance, bequest or any other form of succession, to the extent that the transferor had been resident in a member state of the European Union or the European Economic Area, other than Spain, taxpayers shall have the right to apply the rules approved by the Spanish Autonomous Region in which the assets and

rights with more value of the individual are located. Investors are advised to consult their tax advisors or lawyers.

Likewise, in the acquisition of movable property through gift or any other transfer without for no consideration, non-resident taxpayers who are resident in a member state of the European Union or the European Economic Area shall be entitled to apply the rules approved by the Spanish Autonomous Region where the movable property was located on the higher number of days in the five years prior to the day before accrual of the tax, inclusive. Investors are advised to consult their tax advisors or lawyers.

Companies that are not resident in Spain are not subject to this tax. The income they obtain by gifts is generally taxed as capital gains, pursuant to the NRIT Law previously described, without prejudice to any applicable DTT.

Non-resident shareholders are advised to consult their tax advisors about the terms in which IGT applies in each case.

4.11.2 Indication as to whether the issuer assumes responsibility for the withholding of taxes at source.

The Bank, as the issuer and payer of income that may result from ownership of the New Shares, undertakes to make withholdings on account of taxes in Spain pursuant to prevailing regulations.

4.11.3 Possible withholding under Foreign Account Tax Compliance Act

According to the agreement signed on 14 May 2013 by Spain and the USA, to improve international fiscal compliance and for implementation of the Foreign Account Tax Compliance Act (FATCA) (the "**FATCA Agreement**"), Spanish financial institutions may be required in specific cases to impose 30% withholdings on all payments that are considered to be income sourced in the USA made to non-US financial institutions which fail to comply with FATCA ("**Non-participating Foreign Financial Institution**"). In this regard, and pursuant to the FATCA agreement, the Bank (or any financial intermediary), in its capacity of Spanish financial institution, may be required to impose a 30% withholding on all payments which are considered to United States source income made under the New Shares to any Non-participating Foreign Financial Institution (including any financial intermediary which may act on behalf of any holders of New Shares), and also holders of financial accounts which do not provide the information required by the financial institutions with which they operate for compliance with their obligations under FATCA.

Under the current rules, payments which are made under the New Shares would not be considered to be US source income which could be subject to the 30% withholding under FATCA. However, it is feasible that in the future the New Shares may be considered to be "foreign pass-through payments" (non-US source income as and to the extent that they are attributable to US source income subject to FATCA withholding). These payments are subject to the 30% withholding as provided for under FATCA when they are made to a Non-Participating Foreign Financial Institution or a holder of a financial account which does not provide the information required pursuant to FATCA. It is important to note that the withholding obligation on foreign pass-through payments will not be required prior to 1 January 2019, or the date of publication of the regulation which defines "foreign pass-through

payments", if it is later. According to the FATCA Agreement, the signatory States undertake to work jointly, together with other jurisdictions, to develop an alternative criterion for handling "foreign pass-through payments" which might be feasible and effective, as well as acting as an incentive for compliance with FATCA.

Given that FATCA is a particularly complex regulation, potential subscribers of New Shares are advised to consult their tax advisors and/or consultants as to how the FATCA might affect them taking into account their specific situation.

The concepts and terms defined in this section shall have the meaning stipulated in the FATCA Agreement.

4.11.4 Information on income taxes on the securities withheld at source in countries other than Spain in which the shares are being offered and admission to listing is being requested

Section IV below provides a general description of the tax regime applicable to the acquisition, ownership and subsequent sale of the New Shares in Italy, Poland, Portugal and the United Kingdom current at the date of approval of this Securities Note.

5. CLAUSES AND TERMS AND CONDITIONS OF THE OFFER

5.1 Conditions, offer statistics, expected timetable and action required to apply for the offer.

5.1.1 Conditions to which the offer is subject.

The Capital Increase is not subject to any conditions.

5.1.2 Total amount of the issue/offer, distinguishing the securities offered for sale and those offered for subscription; if the amount is not fixed, description of the arrangements and time for announcing to the public the definitive amount of the offer.

The Capital Increase has a nominal amount of EUR 729,116,372.50, and a total effective amount of EUR 7,072,428,813.25. It will be carried out through the issue and admission to listing of 1,458,232,745 newly issued ordinary shares, each with a nominal value of EUR 0.50 and of the same class and series as those outstanding. The New Shares will be issued with a share premium of EUR 4.35 per New Share, which is equivalent to a total issue premium of EUR 6,343,312,440.75, and an issue price (nominal value plus premium) of EUR 4.85 per New Share (the "**Subscription Price**"). The Subscription Price represents a discount of 19.19% on the issue price of the Bank's shares at the close of the market on 3 July 2017, (EUR 6.0020), and a discount of 17.75% on the value arising from deducting the amount of the theoretical value of the pre-emptive subscription right from that share price ("theoretical ex-right price" or TERP) (refer to section 5.1.3(B) of this Securities Note).

The resolutions approving the Capital Increase under which the New Shares are being issued, as referred to in section 4.6 of this Securities Note expressly considered the possibility of incomplete subscription. Therefore, if the Capital Increase is not fully subscribed within the established period, capital shall only be increased by the amount of actual subscriptions. Nevertheless, and as described in 5.4.3 of this Securities Note, on 3 July 2017, Banco Santander, as the issuer and Global Coordinator, signed an underwriting agreement with the Underwriters.

At the end of the subscription period, the board of directors (or, the executive committee, as the case may be) shall proceed to determine the effective amount of the Capital Increase, which shall be disclosed to the public as soon as possible, through notification of a material fact to the CNMV.

In the event that the New Shares are fully subscribed, they shall represent approximately 10% of the Bank's share capital prior to the Capital Increase, and approximately 9.09% after the Capital Increase.

5.1.3 The time period, including any possible amendments, during which the offer will be open and description of the application process.

A. Expected timetable for the Capital Increase

The Bank expects the timetable of the Capital Increase to be as follows:

Action	Estimated date
Resolution to approve the Capital Increase	3 July 2017
Signing of the Underwriting Agreement	3 July 2017
Material fact announcing the Capital Increase and the signing of the Underwriting Agreement	3 July 2017
Approval and registration of the Share Registration Document and the Securities Note in the Spanish Securities Market Commission	4 July 2017
Material fact announcing the registration of the Securities Note in the Spanish Securities Market Commission, the Pre-emptive Subscription Period, and the request for Additional Shares	4 July 2017
Publication of the notice of the Capital Increase in the Official Gazette of the Mercantile Registry ("**BORME**") and last trading date of shares "with rights" ("Last trading Date")	5 July 2017
Launch of the Pre-emptive Subscription Period (1st round) and request for Additional Shares	6 July 2017
Initial trading date of Bank shares "ex-dividend" ("Ex-Date") and admission to trading of pre-emptive subscription rights	6 July 2017
Cut-off date on which Iberclear will determine positions for allocation of pre-emptive subscription rights ("Record Date")	7 July 2017
Payment date of the pre-emptive subscription rights by Iberclear	10 July 2017
End of trading of pre-emptive subscription rights	20 July 2017
End of the Pre-emptive Subscription Period and request for Additional Shares	20 July 2017
If applicable, Allocation Period for Additional Shares (2nd round)	26 July 2017
Material fact announcing the New Shares subscribed during the Pre-emptive Subscription Period, and, if applicable, during the period for Allocation for Additional Shares, and, if applicable, opening of the Discretionary Allocation Period	26 July 2017
Opening, if applicable, of the Discretionary Allocation Period (3rd round)	26 July 2017
If applicable, deadline for the Discretionary Allocation Period. Should the Discretionary Allocation Period be opened, material fact notifying the number of	27 July 2017

Action	Estimated date
Discretionary Allocation Shares subscribed during the Discretionary Allocation Period.	
Payment by Iberclear Participant Entities to Banco Santander (in its capacity as Agent) of the New Shares subscribed during the Pre-emptive Subscription Period and, if applicable, during the Allocation Period for Additional Shares.	27 July 2017
If applicable, payment by the Global Coordinators (except for Banco Santander), in name and on behalf of the Underwriting Entities (acting in turn in name and on behalf of the successful bidders), for the New Shares placed during the Discretionary Allocation Period ("pre-financing") or whose subscription corresponds to the Underwriting Entities, in performance of their respective underwriting obligations	27 July 2017
Resolution to execute Capital Increase ("Execution Date").	27 July 2017
Notarisation of the Capital Increase deed .	27 July 2017
Registration of the notarised Capital Increase deed with the Mercantile Registry .	27 July 2017
Material fact announcing the execution of the Capital Increase resolution, notarisation and registration of the public deed at the Mercantile Registry and estimated date for admission to trading of the New Shares.	27 July 2017
Registration of the New Shares in Iberclear (share registration)	28 July 2017
Admission to trading of the New Shares by the CNMV and the Spanish Stock Exchanges.	28 July 2017
Execution, if applicable, of the special stock exchange transaction for the transfer of the Discretionary Allocation Shares by the Global Coordinators (excluding Banco Santander) to the other Underwriters (for subsequent transfer to the final recipients) (the "**Special Stock Exchange Transaction**").	28 July 2017
Material fact announcing the admission to trading of the New Shares.	28 July 2017
Estimated day for admission to trading of the New Shares.	31 July 2017
Settlement, if applicable, of the Special Stock Exchange Transaction.	1 August 2017

The Bank has established the above schedule taking into account the most likely dates on which each one of the milestones is likely to take place. However, they are merely indicative dates and there is no certainty that such milestones will take place at those dates.

If there is any delay in the schedule, the Bank will announce this to the market and the Spanish Securities Market Commission as soon as possible, through a material fact.

As soon as approval and registration of the Securities Note by the CNMV is verified, Banco Santander, as the Agent, shall inform all Participant Entities of the periods and phases in the implementation of the Capital Increase, through instructions it will send to all Participant Entities, through Iberclear.

B. Pre-emptive Subscription Period and, if applicable, request for Additional Shares (first round)

The Bank's shareholders are entitled to a pre-emptive subscription right of New Shares, as follows:

(i) Assignment of pre-emptive subscription rights

Bank shareholders will be entitled to pre-emptive subscription of New Shares if they bought their shares before or on 5 July 2017, the date of the notice of the Capital Increase in the Official Gazette of the Mercantile Registry (the Last Trading Date) and if they appear as shareholders in the records of Iberclear at 23:59 hours on 7 July 2017 (the Record Date) (the "**Accredited Shareholders**").

(ii) Pre-emptive subscription rights

Pursuant to article 304 of the Companies Law, Accredited Shareholders may exercise, during the Pre-emptive Subscription Period, their right to subscribe a number of New Shares in proportion to the nominal value of the shares they hold.

With regard to the direct and indirect portfolio of treasury shares:

- The Bank has 13,244 direct treasury shares, representing approximately 0.00001% of its share capital, at 3 July 2017. Pursuant to article 148 of the Companies Law, direct treasury shares do not generate pre-emptive subscription rights. The rights that would have accrued to these treasury shares, accrue directly to the other shareholders. So as not to alter the calculation of the pre-emptive subscription rights needed for subscription to the New Shares, Banco Santander shall hold the same number of direct treasury shares at 23:59 on the date of publication of the announcement of the Capital Increase in the BORME.
- On 30 June 2017, Banco Santander held 4,750,000 indirect treasury shares through Pereda Gestión, S.A. and 200 additional indirect treasury shares through Banco Popular, representing 0.029% of the share capital. Pursuant to the Companies Law, holders of these indirect treasury shares will receive, in accordance with the provisions of section 5.1.3(B)(i) above, the pre-emptive subscription rights corresponding to the aforementioned shares, which may be sold as set forth in this Securities Note but, pursuant to the Companies Law, may not be exercised by such subsidiaries.

The calculations performed to determine the number of subscription rights necessary in order to subscribe the New Shares are included below:

- Total number of shares of the Bank: 14,582,340,701.
- Number of direct treasury shares as of the registration date of this Securities Note: 13,244.
- Number of shares with a pre-emptive subscription right: 14,582,327,457.
- Number of indirect treasury shares with waived pre-emptive subscription right: 7.
- Number of shares with pre-emptive subscription right that have not been waived: 14,582,327,450.
- Number of New Shares: 1,458,232,745.
- Number of shares with pre-emptive subscription rights that have not been waived / New Shares = 114,582,327,450/1,458,232,745 =10.

Accredited Shareholders will be entitled to one (1) pre-emptive right per each share they hold (the "**Subscription Rights**"). For every ten (10) Subscription Rights, Accredited Shareholders will be entitled to subscribe one (1) New Share.Therefore, at least ten (10) Subscription Rights must be held to subscribe one New Share in exercising the pre-emptive subscription right at the Subscription Price.

Each New Share subscribed in exercising the pre-emptive subscription right must be subscribed and paid up at the Subscription Price, i.e. EUR 4.85.

(iii) Transfer of rights

Pre-emptive subscription rights may be transferred under the same conditions as the shares to which they relate, in accordance with Article 306.2 of the Companies Law, and will be eligible for trading on Spanish stock exchanges.

(iv) Exercise of rights

The pre-emptive subscription period will last fifteen (15) calendar days, beginning on the first calendar day following the publication of the notice of the Capital Increase in the Official Gazette of the Mercantile Registry (the "**Pre-emptive Subscription Period**"). The Pre-emptive Subscription Period is expected to begin on 6 July 2017 and end on 20 July 2017, both inclusive. The pre-emptive subscription rights will be traded during the trading sessions between these dates, with the first on 6 July 2017 and the last on 20 July 2017. Accredited Shareholders which own at least ten (10) pre-emptive subscription rights at the end of that period, as well as third-party investors that acquire such rights on the market during the Pre-emptive Subscription Period (the **"Investors**") will be entitled to exercise their rights in the proportion necessary to subscribe the New Shares.

Any pre-emptive subscription rights not exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period.

To exercise the pre-emptive subscription rights, the Accredited Shareholders and the Investors may contact the office of Banco Santander or of the Participant Entity whose accounting records contain the pre-emptive subscription rights (which in the case of the Accredited Shareholders will be the Participant Entity with which the shares granting said rights are held), indicating their intent to exercise the aforementioned subscription right.

Those Accredited Shareholders and/or Investors who have deposited their pre-emptive subscription rights in Banco Santander will be able to issue their subscription orders using the Bank's branch and, alternatively, through the remote banking service (those clients of Banco Santander that have enabled the service, will be able to do it both digitally or by telephone). Digitally, they will automatically access the Summary, this Securities Note and the Registration Document. By telephone, they will confirmed that they have had access to that information in the CNMV's website (http://www.cnmv.es) or in Banco Santander's website (http://www.bancosantander.es). However, Accredited Shareholders or Investors who wish to request Additional Shares will have to do so through the branch where they have deposited their pre-emptive subscription rights.

The orders placed to exercise pre-emptive subscription rights shall be considered final, irrevocable and unconditional. They may not be revoked or modified by holders of pre-emptive subscription rights, unless a supplement to the Prospectus is published before the

closing of the public offer. The orders shall not be affected by termination of the Underwriting Agreement or the non-entry into force of the underwriting and pre-financing obligations envisaged therein.

(v) Request for Additional Shares.

During the Pre-emptive Subscription Period, Accredited Shareholders who have exercised all of the pre-emptive subscription rights they have held at that time with the Participant Entity in question, and Investors who acquire pre-emptive subscription rights and exercise them in full, may request the subscription of additional New Shares (the "**Additional Shares**") when they exercise these rights, through the Participant Entity with which they are held, in case any New Shares remain unsubscribed following exercise of the pre-emptive subscription rights at the end of the Pre-emptive Subscription Period (the "**Excess Shares**") and, therefore, the maximum amount to be subscribed in this Capital Increase is not covered.

The orders relating to the request for Additional Shares must be placed for a certain number of shares or for a certain amount and there will not be any quantitative limit. The orders made for a certain amount shall be considered placed for the number of Additional Shares resulting from dividing the amount requested in euros by the Subscription Price and rounding down to the nearest whole number of Additional Shares.

The Participant Entities shall be responsible for verifying that the Accredited Shareholders and the Investors requesting Additional Shares have exercised all the pre-emptive subscription rights deposited at the time with the Participant Entity in question.

Without prejudice to the fact that they may not be met in full, orders relating to requests for Additional Shares shall be considered final, irrevocable and unconditional. As is the case with orders placed when exercising the pre-emptive subscription right, orders corresponding to requests for Additional Shares shall not be affected by the termination of the Underwriting Agreement or the non-entry into force of the underwriting and pre-financing obligations envisaged therein.

(vi) Communications from the Participant Entities to the Agent.

During the Pre-emptive Subscription Period, the Participant Entities shall notify Banco Santander, which will act as the Agent in the Capital Increase (the "**Agent**"), on a daily basis no later than 5:00 p.m. and by e-mail, of the total number of New Shares subscribed through exercise of pre-emptive subscription rights and the total number of Additional Shares requested, in all cases in cumulative terms since the beginning of the Pre-emptive Subscription Period.

Participant Entities must notify the Agent, through its issuing parties and, where applicable, on its own behalf, of the total volume of New Shares subscribed with them in exercise of pre-emptive subscription rights and, separately, of the total volume of subscription requests for Additional Shares placed with them, no later than 9:00 pm Madrid time on the fourth trading day following the end of the Pre-emptive Subscription Period (i.e. foreseeably 26 July 2017), in accordance with the operating instructions established by the Agent for this purpose.

Lastly, Participant Entities must send the Agent the files with the information on the New Shares subscribed during the Pre-emptive Subscription Period and the Additional Shares requested, which must comply with the specifications indicated in the Practical Guide for

Corporate Events prepared by the Spanish Banking Association and the Spanish Confederation of Savings Banks published by Iberclear on 10 March 2016, no later than 9:00 pm Madrid time on the fourth trading day following the end of the Pre-emptive Subscription Period (i.e. foreseeably 26 July 2017). The files must be received by the Agent with the breakdown of investors described in the aforementioned Practical Guide, without the Agent being responsible under any circumstances for verifying the integrity and accuracy of the data provided by the Participant Entities. Only the Participant Entities will be responsible for errors or omissions in the information provided by Participant Entities, defects in the files or electronic transmissions sent and, in general, any failure on the part of the Participant Entities to comply with the provisions of this section, without the Agent assuming any responsibility in this regard.

The Agent may choose not to accept those communications from Participant Entities that have been sent at a time or date subsequent to that indicated, or those that do not meet any of the requirements or instructions required for these communications in this Securities Note or in current legislation, without the Agent assuming any responsibility and without prejudice to any possible liability that may be incurred by the infringing Participant Entity with regard to the holders of the orders placed within the period with the said Participant Entity.

The Subscription Price of the New Shares subscribed during the Pre-emptive Subscription Period must be paid up in full in accordance with the provisions of section 5.1.8 (A) below.

C. Allocation Period for Additional Shares (second round)

If there are Excess Shares at the end of the Pre-emptive Subscription Period, a process of allocating Additional Shares will be opened in which the Excess Shares will be distributed among the Accredited Shareholders and Investors who applied to subscribe Additional Shares, in the manner indicated below.

The Additional Shares will be allocated on the fourth trading day following the date on which the Pre-emptive Subscription Period ends (the "**Allocation Period for Additional Shares**"). The Additional Shares are expected to be allocated on 26 July 2017.

On this date, the Agent will determine the number of Excess Shares and allocate them to those Accredited Shareholders or Investors who have applied for Additional Shares in accordance with the provisions of section 5.1.3.(B)(v) above. Under no circumstances will Accredited Shareholders and/or Investors be awarded more shares than they applied for. The award of Additional Shares is subject to the existence of Excess Shares following the Pre-emptive Subscription Period.

If the number of Additional Shares requested to be subscribed in the Allocation Period for Additional Shares is equal to or less than the number of Excess Shares, they will be allocated to the applicants until the requests are covered in full.

If the number of Additional Shares requested is greater than the Excess Shares, the Agent will allocate them on a pro-rata basis in accordance with the following rules:

– The Excess Shares will be awarded in proportion to the volume of Additional Shares requested, using the percentage that the Additional Shares requested by each subscriber represent with respect to the total Additional Shares requested. The

percentage used for the proportional allocation will be rounded down to three decimal points (i.e. 0.78974 will be rounded down to 0.789).

- As a general rule, if there are fractions in the award, they will be rounded down to the closest whole number such that an exact number of Additional Shares is awarded to each applicant.
- If, after applying the provisions of the paragraphs above, there are Excess Shares that were not awarded due to the rounding effect, they will be distributed one by one in order from the largest to smallest request and, if the requests are the same, in alphabetical order of the Accredited Shareholders or Investors according to the first position (or, if they are the same, the following position) in the "Name and Surnames or Company Name" field, regardless of its content, that appears in the electronic transmissions sent by the Participant Entities, starting with the letter "A".

The Agent will notify the Participant Entities through which the respective requests for Additional Shares were made of the number of Excess Shares allocated to those requesting Additional Shares on the fourth trading day following the date on which the Pre-emptive Subscription Period ends. The aforementioned notice is expected to be sent by the Agent to the Participant Entities on 26 July 2017.

The Excess Shares allocated to those requesting Additional Shares will be deemed to be subscribed during the Allocation Period for Additional Shares.

The Subscription Price of the Excess Shares allocated during the Allocation Period for Additional Shares must be paid up in full in accordance with the provisions of section 5.1.8 (A) below.

D. Discretionary Allocation Period (third round)

Once the Allocation Period for Additional Shares ends, if the shares subscribed during the Pre-emptive Subscription Period, together with the Additional Shares requested by the subscribers, are not sufficient to cover all of the New Shares subject to this Capital Increase (the shares resulting from the difference between the total New Shares and those subscribed in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares will be known as the "**Discretionary Allocation Shares**"), Banco Santander, as the issuer and the Agent, will notify the Global Coordinators, as the entities in charge of keeping the records, no later than 5:00 p.m. Madrid time on the fourth trading day following the end of the Pre-emptive Subscription Period (i.e. foreseeably 26 July 2017).

The discretionary allocation period is expected to begin, where applicable, any time following the end of the Allocation Period for Additional Shares and to end no later than 6:00 a.m. Madrid time on 27 July 2017 ("**Discretionary Allocation Period**"). If a Discretionary Allocation Period is opened, the Bank will notify the CNMV by filing a material fact.

If all of the New Shares are subscribed during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, there will be no Discretionary Allocation Period. The Agent will notify the Participant Entities of this no later than 6.00 p.m. Madrid time on 26 July 2017.

During the Pre-emptive Subscription Period, the Allocation Period for Additional Shares and the Discretionary Allocation Period, the Underwriters, together with the Bank as the Global Coordinator, will actively carry out marketing and promotional activities to generate subscription requests for the Underwritten Shares (as defined below), where applicable, from potential qualified Spanish and foreign investors (in countries where this is permitted under local legislation). Wells Fargo Securities, LLC will not carry out marketing and promotional activities to generate subscription requests from potential investors in Spain for the Underwritten Shares.

In the hypothetical case that no New Shares are subscribed by investors during the Pre-emptive Subscription Period and/or the Allocation Period for Additional Shares, the number of Discretionary Allocation Shares will be equal to the number of New Shares.

During the Discretionary Allocation Period, those persons considered qualified investors in Spain, as this term is defined in Article 39 of Royal Decree 1310/2005, of 4 November, and those considered qualified investors outside of Spain in accordance with the legislation applicable in each country, such that pursuant to applicable legislation the subscription and payment of the New Shares does not require any registration or approval other than that expected to be obtained in the foreign countries where the Bank's shares are traded or are not restricted by securities markets regulations in the respective jurisdiction, may submit proposals for subscribing the Discretionary Allocation Shares with any of the Underwriters and Banco Santander as Global Coordinator. Investors considered qualified investors in Spain - as the term is defined in article 39 of Royal Decree 1310/2005, of 4 November - may not submit proposals for subscribing the Discretionary Allocation Shares with Wells Fargo Securities, LLC.

The subscription proposals will be final and irrevocable and will include the number of Discretionary Allocation Shares that each investor is willing to subscribe at the Subscription Price, without prejudice to their loss of effect if the Underwriting Agreement is terminated.

The Underwriters must notify the Bank prior to 6:30 a.m. on the day corresponding to the end of the Discretionary Allocation Period of the subscription proposals for Discretionary Allocation Shares that they receive through their issuing parties and the total volume of subscription proposals for Discretionary Allocation Shares submitted.

If there is excess demand for Discretionary Allocation Shares, the Bank will determine the final allocation of these shares among the applicants as soon as possible and following a non-binding consultation with the Global Coordinators. Subscription proposals may not be rejected if it means that the Underwriters must cover their respective underwriting obligations.

Once the allocations of Discretionary Allocation Shares are reported to the investors, their proposals will automatically become final subscription orders, unless the Underwriting Agreement is terminated, in which case they will be revoked.

In accordance with section 5.4.3 of this Securities Note, on 3 July 2017 Banco Santander, as the issuer and Global Coordinator, entered into an Underwriting Agreement with the Underwriters, with regard to underwriting the "**Underwritten Shares**", i.e. all of the New Shares (the "**Underwriting Agreement**").

By virtue of the Underwriting Agreement, the Global Coordinators (excluding Banco Santander) also undertook to pre-finance the number of Discretionary Allocation Shares that do not exceed the number of Underwritten Shares and that were subject to placement during the Discretionary Allocation Period.

Consequently:

(i) The Global Coordinators (excluding Banco Santander) undertake, acting in name and on behalf of the Underwriters in proportion to their underwriting commitment, which in turn act in name and on behalf of the final successful bidders, to pre-finance the number of Discretionary Allocation Shares that do not exceed the number of Underwritten Shares and that were subject to placement during the Discretionary Allocation Period under the terms envisaged in section 5.1.8 below.

(ii) If, once the Discretionary Allocation Period has elapsed, the sum of the New Shares subscribed by the Accredited Shareholders and the Investors in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares and, where applicable, by qualified Spanish or foreign investors in the Discretionary Allocation Period is less than the total number of New Shares, the Global Coordinators (excluding Banco Santander) in name and on behalf of the Underwriters undertake to subscribe and pay up the New Shares, in exercise of their respective underwriting obligations.

The Subscription Price of each New Share subscribed during the Discretionary Allocation Period must be paid up in full in accordance with the provisions of section 5.1.8 (A) below.

Notwithstanding the above, if there are Discretionary Allocation Shares once the Allocation Period for Additional Shares has ended, the Global Coordinators (excluding Banco Santander) may decide, not to open the Discretionary Allocation Period or to close it early, in which case the Underwriters will subscribe directly the appropriate Underwritten Shares and at the Subscription Price in proportion to their underwriting obligation.

5.1.4 An indication of when, and under which circumstances, the offer may be revoked or suspended and whether revocation can occur after dealing has begun.

No grounds for termination or revocation of the Capital Increase that is the subject matter of this Securities Note are envisaged other than those that may arise from the application of the law or compliance with a court or administrative ruling or with that set forth below.

The Underwriting Agreement may be terminated (thereby terminating the envisaged underwriting and pre-funding obligations), if, at any time between 3 July 2017 and 7:00 am Madrid time (the "**Pre-Funding Time**") on the Execution Date (i.e. 27 July 2017, according to the schedule) any grounds for termination arise in accordance with the terms and conditions set forth in the Underwriting Agreements and described in section 5.4.3 below, with the consequences described therein.

Further, Banco Santander may, at its sole discretion and following a non-binding consultation with the Global Coordinators (excluding the Bank), terminate the Underwriting Agreement if it so deem it to be fit any time between the date of the Underwriting Agreement and 9:00 a.m. Madrid time, of the day of publication of the notice of the Capital Increase in the Official Gazette of the Mercantile Registry (BORME) (expected to take place on 5 July 2017), in

which case the Bank may decide not to carry out the Capital Increase, or alternatively go ahead with Capital Increase without underwriting and therefore the Capital Increase could be incomplete.

The underwriting and pre-funding obligations of the Underwriters under the Underwriting Agreement are subject to compliance with certain conditions precedent, which are customary in such transactions and which must be met no later than the Pre-Funding Time (i.e.,7:00 am Madrid time) on the Execution Date, the date on which the Capital Increase deed is expected to be executed. Otherwise, the underwriting and pre-funding obligations of the Underwriters shall not enter into force.

As indicated in the section on Risk Factors, if the Underwriting Agreement is terminated or does not enter into force as a result of failure to comply with any condition precedent (whereby the subscription requests for Discretionary Allocation Shares submitted and the Underwriters' obligation of acquiring the Discretionary Allocation Shares by virtue of complying with its underwriting obligation would therefore be rendered ineffective), Accredited Shareholders and Investors who exercise their pre-emptive subscription rights will not be able to revoke the subscriptions made in exercising these rights or the request for Additional Shares submitted.

Notwithstanding the above, should a significant factor occur (which could be, among others, certain of the envisaged as a ground for termination of the Underwriting Agreement indicated in Section III.5.4.3 of the Securities Note), between the date the Securities Note is registered with the CNMV and definitive closing of the public offering that requires the publication of a supplement and the subsequent opening of the revocation period for the orders and subscription requests placed prior to the publication of the supplement, for a period of no less than two working days from said publication, the Accredited Shareholders and the Investors will be able to revoke the subscription order according to article 16 of the Directive 2003/71/CE of the European Parliament and the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, currently into force.

The termination of the Underwriting Agreement will be reported by the Bank through a material fact as soon as it occurs.

5.1.5 A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.

The possibility of reducing the subscriptions in the Pre-emptive Subscription Period has not been envisaged. However, the maximum number of Additional Shares that may be subscribed by the Accredited Shareholders and the Investors will depend on the number of Excess Shares and the rules for allocating Excess Shares described in section 5.1.3 above.

As indicated in greater detail in section 5.1.8 below, the Participant Entities and the Underwriters, where applicable, may request that subscribers provide funds for the amount corresponding to the Subscription Price of the Additional Shares and, where applicable, the Discretionary Allocation Shares requested, respectively. In any case, if the number of Additional Shares finally allocated to each applicant is less than the number of Additional Shares requested thereby, or if the subscription proposal for Discretionary Allocation Shares submitted by the applicant is not met in full or is partially met, the Participant Entity or the

Underwriter, where applicable, will be required to return the amount corresponding to the funds provided, or the amount corresponding to the excess not awarded, to said applicant, free of any expenses or fees, in accordance with the procedures applicable to these entities. If there is a delay in returning the funds, the Participant Entity must pay the late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until this effectively takes place.

However, investors may revoke their subscription orders in those cases and under the terms indicated in section 5.1.4 above.

5.1.6 Details of the minimum and/or maximum amount of application (whether in number of securities or aggregate amount to invest).

The amount of New Shares that may be subscribed during the Pre-emptive Subscription Period by the Accredited Shareholders and/or the Investors will be that resulting from applying a ratio of one (1) New Share for every ten (10) pre-emptive subscription rights, with one pre-emptive subscription right corresponding to every existing share of the Bank.

In addition, those subscribing New Shares that submitted the related request for Additional Shares during the Pre-emptive Subscription Period may subscribe Additional Shares under the terms indicated in section 5.1.3 above. The effective maximum number of Additional Shares that may be subscribed by these shareholders and investors will depend on the number of Excess Shares and the rules for allocating Excess Shares described in section 5.1.3 above.

The Discretionary Allocation Period will not have any minimum or maximum number for the subscription proposals submitted by the investors in question or for the subscriptions by the Underwriters in exercising their underwriting obligation, without prejudice to the number of New Shares that are agreed to be subscribed. The effective number of Discretionary Allocation Shares that may be subscribed during the Discretionary Allocation Period will depend on the number of New Shares that have yet to be subscribed following the Additional Allocation Period.

5.1.7 An indication of the period during which an application may be withdrawn, provided that investors are allowed to withdraw their subscription.

Share subscription orders placed during the Pre-emptive Subscription Period and, where applicable, subscription requests in the Allocation Period for Additional Shares, will be considered final subscription orders and, therefore, will be irrevocable, without prejudice to the fact that the aforementioned requests for Additional Shares may not be met in full in accordance with the rules applied for allocating Excess Shares described in section 5.1.3 above.

Subscription proposals for Discretionary Allocation Shares will also be final and irrevocable, unless the Underwriting Agreement is terminated or does not enter into force as a result of not meeting any of the conditions precedent to which it is subject. In such case, the subscription proposals for Discretionary Allocation Shares will be automatically revoked.

5.1.8 Method and time limits for paying up the securities and for delivery of the securities.

A. Payment of the shares

(i) New Shares subscribed in the Pre-emptive Subscription Period.

The Subscription Price of each New Share subscribed during the Pre-emptive Subscription Period must be paid up in full by the subscribers when the New Shares are subscribed (i.e. when the subscription order is placed), through the Iberclear Participant Entities through which the subscription orders are placed.

According to the proposed schedule, the Participant Entities with which subscription orders for New Shares are placed will pay the amounts corresponding to the payment for the New Shares subscribed during the Pre-emptive Subscription Period to the Agent through the channels made available by Iberclear, such that they are received by the Bank no later than 10:30 a.m. Madrid time on 27 July 2017, with the value date being the same day.

If any of the Participant Entities, having paid up the amounts corresponding to these subscriptions within the aforementioned period, do not report the list of subscribers to the Agent under the terms envisaged in this Securities Note, the Agent will allocate the New Shares paid on behalf of the aforementioned Participant Entity, without the Agent assuming any liability and without prejudice to any possible liability that may be incurred by the infringing Participant Entity with regard to the holders of the subscription orders for New Shares placed within the period with said Participant Entity.

(ii) New Shares subscribed in the Allocation Period for Additional Shares.

The Subscription Price of each New Share subscribed during the Allocation Period for Additional Shares must be paid up in full no later than 10:30 a.m. Madrid time on 27 July 2017 through the Participant Entities with which their subscription orders for Additional Shares were placed. Requests for Additional Shares that are not paid up in accordance with the terms indicated will not be considered to have been placed.

However, Participant Entities may ask subscribers to provide funds corresponding to the Subscription Price of the Additional Shares requested. In any case, if the number of Additional Shares finally allocated to each applicant is less than the number of Additional Shares requested thereby, the Participant Entity will be required to return the amount corresponding to the funds provided, or to the excess not awarded, to said applicant, free of any expenses or fees, with a value date of the business day following the end of the Allocation Period for Additional Shares, in accordance with the procedures applicable to these Participant Entities. If there is a delay in returning the funds, the Participant Entity must pay the late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until this effectively takes place.

The Participant Entities with which subscription orders for Additional Shares are placed will pay the amounts corresponding to the payment for these shares through the channels made available by Iberclear, such that they are received by the Bank no later than 10:30 a.m. Madrid time on 27 July 2017, with the value date on this same day.

If any of the Participant Entities, having paid up the amounts corresponding to these subscriptions within the aforementioned period, do not report the list of subscribers to the Agent under the terms envisaged in this Securities Note, the Agent will allocate the Additional Shares paid on behalf of the aforementioned Participant Entity, without the Agent assuming any liability and without prejudice to any possible liability that may be incurred by the infringing Participant Entity with regard to the holders of the subscription orders for Additional Shares placed within the period with said Participant Entity.

(iii) New Shares subscribed in the Discretionary Allocation Period.

The Subscription Price of the Discretionary Allocation Shares must be paid up in full by the final investors awarded the shares no later than the Settlement Date (as this term is defined below in this section), without prejudice to the pre-funding envisaged in this section.

Underwriters that receive subscription requests for the Discretionary Allocation Period may ask applicants to provide funds in order to ensure payment for the price of the Discretionary Allocation Shares that were allocated thereto, where applicable. If the subscription proposal is rejected, the corresponding funds provided must be returned to said applicants, free of any expenses or fees, with a value date of the business day following the end of the Discretionary Allocation Period. If a subscription proposal is partially selected, only the funds provided that affect the portion of the subscription proposal that was not selected will be returned. If there is a delay in returning the funds, the Underwriter must pay the late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until this effectively takes place.

For operational reasons, and in order for the New Shares to be admitted to trading on the Spanish stock exchanges as soon as possible, prior to executing and registering the public deed for the Capital Increase in the Mercantile Registry, the Global Coordinators (excluding the Bank), acting in name and on behalf of the Underwriters (in proportion to their respective underwriting obligation), which in turn act in name and on behalf of the final successful bidders, have undertaken to make a prepayment to the Bank for the amount corresponding to the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period that does not exceed the number of Underwritten Shares (the "**Shares Subject to Pre-funding**"), within the limits indicated in section 5.4.3 below, and to subscribe and pay these Shares Subject to Pre-funding for the amount and in the proportion envisaged in the Underwriting Agreement, also within the aforementioned limits. The pre-funding amount must be received by the Bank, without deducting any fees or expenses, no later than the Pre-funding Time (7:00 a.m. Madrid time) on 27 July 2017.

This payment must be made all at once on the same value date through a funds transfer order. The total amount corresponding to the payment of the Shares Subject to Pre-funding will be deposited in the bank account open in the name of the Bank.

Assuming that the public deed for the Capital Increase is executed and registered with the Mercantile Registry no later than 27 July 2017, the New Shares are expected to be admitted to trading on the Spanish stock exchanges, in accordance with the planned timetable, on 28 July 2017 through the Spanish stock market interconnection system, whereby the first day of trading of the New Shares will be 31 July 2017 and, if necessary, the New Shares awarded during the Discretionary Allocation Period (through the Special Stock Market Transaction) will be settled, in accordance with the planned timetable, on 1 August 2017 (the "**Settlement Date**").

B. Delivery of the New Shares

Once the Capital Increase is paid up and the certificate or certificates are issued accrediting the deposit of the funds corresponding to all New Shares subscribed, on the Subscription Date the Capital Increase will be declared closed and subscribed by the board of directors or, by substitution or delegation, by the Bank's executive committee or by the person(s) appointed

thereby, and the Bank will execute the corresponding Capital Increase deed, which will be subsequently submitted to and registered with the Mercantile Registry of Cantabria.

Once this registration is carried out, which is expected to take place on 27 July 2017, the Capital Increase deed will be delivered to the CNMV, to Iberclear and to the stock exchanges. Banco Santander also undertakes to request the admission to trading of the New Shares on the Spanish stock exchanges. The New Shares issued as a result of exercising pre-emptive subscription rights or allocation rights during the Allocation Period for Additional Shares or the Discretionary Allocation Period will be registered with Iberclear as soon as possible following the registration of the Capital Increase deed with the Mercantile Registry of Cantabria.

Iberclear will provide the Accredited Shareholders and the Investors with the reference numbers of the book entries corresponding to their respective positions for the New Shares subscribed during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares through Iberclear members. Iberclear will also provide the Global Coordinators (excluding Banco Santander) with the corresponding reference numbers for the book entries relating to the Shares Subject to Pre-funding paid by each of them, where applicable. The Global Coordinators (excluding Banco Santander) will transfer the Shares Subject to Pre-funding to the final investors or, where applicable, to the other Underwriters in proportion to their underwriting obligation through the execution of the Special Stock Market Transaction, as these types of transactions are defined in Royal Decree 1416/1991, of 27 September, on special stock market transactions and on over-the-counter transfer of listed securities and weighted average share prices.

The Special Stock Market Transaction described is expected to take place on 28 July 2017. In turn, the Underwriters must send the Agent files with the information on the final successful bidders for the shares corresponding to the Discretionary Allocation Period, which must comply with the specifications indicated in the Practical Guide for Corporate Events prepared by the Spanish Banking Association and the Spanish Confederation of Savings Banks published by Iberclear on 10 March 2016, no later than 6:00 p.m. Madrid time on the day it occurs, the date corresponding to the execution of the aforementioned Special Stock Market Transaction.

After the Underwriters transfer the New Shares allocated during the Discretionary Allocation Period to the final investors, the Agent will report to Iberclear, through the Spanish Stock Exchanges, the information relating to the entities that were allocated the New Shares such that the registration is carried out in accordance with the information provided by the Underwriters.

However, the aforementioned periods indicated in this section may not be met and, therefore, there may be a delay in executing the transactions described.

Each of the subscribers of the New Shares will have the right to obtain a signed copy of the subscription form with the contents required by Article 309 of the Companies Law from the Participant Entity with which the subscription was placed.

The New Shares will be registered with the Iberclear Central Registry once the Capital Increase is registered with the Mercantile Registry. On the same day as the registration with the Iberclear Central Registry, the Participant Entities will carry out the corresponding

registrations in their accounting records in favour of the investors who subscribed the New Shares.

The new shareholders will have the right to obtain the certificates of ownership corresponding to the shares from the Participant Entities in which the New Shares are registered, in accordance with the provisions of Royal Decree 878/2015, of 2 October. Participant Entities must issue these certificates prior to the end of the trading day following that on which they were requested by the subscribers.

5.1.9 A full description of the manner and date in which results of the offer are to be made public.

The Bank will report the results of the Pre-emptive Subscription Process and the Allocation Process for Additional Shares through the publication of the related material fact on around 26 July 2017, indicating whether the Discretionary Allocation Period will be opened. If opened, the results of the Capital Increase will be reported after the end of the Discretionary Allocation Period (i.e. on or prior to 27 July 2017).

5.1.10 The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

C. Holders

Accredited Shareholders and Investors who hold pre-emptive subscription rights for the New Shares acquired during the Pre-emptive Subscription Period shall be entitled to pre-emptive subscription.

On the trading day following the "Record Date" (i.e. the "Payment Date"), which is set for 10 July 2017, Iberclear will credit the pre-emptive subscription rights corresponding thereto in the accounts of the Participant Entities, sending them the related communications such that they can in turn credit these to the accounts of the Accredited Shareholders.

D. Negotiability

Pre-emptive subscription rights must be transferred under the same conditions as the New Shares from which they arise, in accordance with the provisions of article 306.2 of the Companies Law, and must be traded on the Spanish Stock Exchanges.

E. Unexercised subscription rights

Any subscription rights not exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period.

F. Underlying carrying amount of the pre-emptive subscription right

Using the value of the Banco Santander share prior to the Capital Increase, amounting to EUR 6.0020 per share (closing price of the Banco Santander share on the Madrid stock exchange on 3 July 2017), the underlying carrying amount of the pre-emptive subscription right of the New Shares would be EUR 0.1047, which is the result of applying the following formula:

$$UCA = \frac{(CPS — SPE) \times MSI}{PNS + MSI}$$

Where:

– UCA: Underlying carrying amount of the pre-emptive subscription right.

– CPS: Closing price of the Banco Santander share on the continuous market on 3 July 2017 (i.e. EUR 6.0020 per share).

– SPE: Subscription price (EUR 4.85).

– PNS: Number of shares prior to the Capital Increase (14,582,340,701 ordinary shares).

– MSI: Maximum number of shares to be issued in the Capital Increase (1,458,232,745 ordinary shares).

However, pre-emptive subscription rights will be freely traded and it is therefore impossible to anticipate the future market value of these rights.

5.1.11 Information on the terms and conditions, offer statistics, expected timetable and subscription procedures for countries other than Spain in which the shares are being offered and admission to trading is being requested

Section IV below provides a general description of the main items relating to terms and conditions, offer statistics, expected timetable and subscription procedures applicable in Italy, Poland, Portugal and the United Kingdom current at the date of approval of this Securities Note.

5.2 Plan of distribution an allotment

5.2.1 The various categories of potential investors to which the securities are offered. If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.

The Capital Increase is aimed at the Accredited Shareholders and the Investors and, if there are any New Shares that have not been subscribed at the end of the Allocation Period for Additional Shares (the Excess Shares), at any other qualified Spanish or foreign investors.

5.2.2 To the extent known to the issuer, an indication of whether major shareholders or members of the issuer's management, supervisory or administrative bodies intended to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer.

The members of the board of directors of Banco Santander have informed the Bank of their non-binding intent to exercise any pre-emptive subscription rights that they may hold as Accredited Shareholders. This subscription will be carried out during the Pre-emptive Subscription Period.

5.2.3 Pre-allotment disclosure.

Not applicable

5.2.4 Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made.

See section 5.1.3(B) above of this Securities Note.

5.2.5 Over-allotment and 'green shoe'.

Not applicable

5.3 Pricing

5.3.1 An indication of the price at which the securities will be offered. If the price is not known or if there is no established and/or liquid market for the securities, indicate the method for determining the offer price, including a statement as to who has set the criteria or is formally responsible for the determination. Indication of the amount of any expenses and taxes specifically charged to the subscriber or purchaser.

By virtue of the delegations carried out by the shareholders at Banco Santander's general shareholders' meeting held on 7 April 2017 and the meeting of the board of directors held on 26 June 2017, on 3 July 2017 the executive committee of Banco Santander determined the Subscription Price of the New Shares by determining the issue rate or price of the New Shares, in particular establishing the amount of the share premium at EUR 4.35 per share and a unit share premium of EUR 4.85 per New Share.

The Bank shall not recover any expenses from the subscribers of the New Shares. No expenses will accrue and be charged to investors participating in the Capital Increase as a result of the initial registration of the New Shares in the accounting records of Iberclear or its Participant Entities. However, Participant Entities that keep records of the holders of Banco Santander shares may freely determine their fees and recoverable administrative expenses for maintaining the securities in their accounting records, in accordance with current legislation and the rates published in their lists of rates and notified to the Bank of Spain and the CNMV.

Further, Banco Santander and the other Participant Entities through which the subscription is placed may also freely determine their fees and recoverable expenses for processing subscription orders for the securities and the purchase and sale of pre-emptive subscription rights, in accordance with current legislation.

The foregoing is understood without prejudice to any special conditions that might apply in other jurisdictions under their respective laws.

5.3.2 Process for the disclosure of the offer price.

See section 5.3.1 above.

5.3.3 If the issuer's equity holders have pre-emptive purchase rights and this right is restricted or withdrawn, indication of the basis for the issue price if the issue is for cash, together with the reasons for and beneficiaries of such restriction or withdrawal.

No mention needs to be made as the pre-emptive subscription right relating to the New Shares subject to the Capital Increase was not excluded.

5.3.4 Where there is or could be a material disparity between the public offer price and the effective cash cost to members of the administrative, management or supervisory bodies or senior management, or affiliated persons, of securities acquired by them in transactions during the past year, or which they have the right to acquire, include a comparison of the public contribution in the proposed public offer and the effective cash contributions of such persons.

The members of the Bank's board of directors, the managing or supervisory bodies, the Bank's senior management or those persons closely related thereto who, where applicable, subscribe the New Shares, will do so at the Subscription Price.

The Bank's shares acquired over the last year by members of the Bank's board of directors, its managing or supervisory bodies, senior management and persons closely related thereto were acquired on market terms or in accordance with remuneration plans whose application was authorised by the shareholders at the Bank's general meeting or in application of the contract conditions for products offered by the Bank to customers (specifically in application of the terms of the 1 2 3 Account).

5.4 Placing and Underwriting

5.4.1 Name and address of the coordinator(s) of the global offer and of single parts of the offer and, to the extent known to the issuer or to the offeror, of the placers in the various countries where the offer takes place.

The Global Coordinators and the Underwriters of the Capital Increase are: Banco Santander, S.A., with registered office at Paseo de Pereda, 9-12, 39004, Santander (Cantabria), Spain; Citigroup Global Markets Limited, with registered office at 33 Canada Square, Canary Wharf, London E14 5LB, United Kingdom; and UBS Limited, with registered office at 5 Broadgate, London EC2M 2QS, United Kingdom.

Additionally, Citigroup Global Markets Limited,, UBS Limited, BNP PARIBAS, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc,, Morgan Stanley & Co International plc, Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A. (in collaboration with Banco Português de Investimento, S.A.), Banca IMI, S.p.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Mediobanca Banca di Credito Finanziario S.p.A., RBC Europe Limited, Société Générale, Wells Fargo Securities, LLC and Jefferies International Limited will act as joint bookrunners and underwriters in the Capital Increase.

Banco Português de Investimento, S.A., in collaboration with CaixaBank, S.A., will carry out marketing activities of the New Shares, although it is not a party to the Underwriting Agreement and will not receive any commission from Banco Santander.

5.4.2 Name and address of any paying agents and depository agents in each country.

Banco Santander, S.A., with registered office for these purposes at Paseo de Pereda, 9-12, 39004, Santander (Cantabria), Spain, acts as the Agent of the Capital Increase.

The New Shares will be represented by book entries. The entities in charge of the accounting records will be Iberclear and its Participant Entities.

5.4.3 Name and address of the entities agreeing to underwrite the issue on a firm commitment basis, and name and address of the entities agreeing to place the issue without a firm commitment or under 'best efforts' arrangements. Indication of the material features of the agreements, including the quotas. Where not all of the issue is underwritten, a statement of the portion not covered. Indication of the overall amount of the underwriting commission and of the placing commission.

The entities identified in section 5.4.1 above act as the Underwriters in relation to the Capital Increase.

On 3 July 2017, an Underwriting Agreement was entered into between the Bank, as the issuer and Global Coordinator, and the Underwriters. As mentioned above, the Underwriters underwrite all of the New Shares (amounting to a total of 1,458,232,745 New Shares).

If the underwriting obligation assumed with the Bank by the Underwriters (the terms of which are described below) does not take effect or is rendered null and void and if all of the New Shares are not subscribed in full during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, the Bank's share capital would only be increased by the amount of the subscriptions made and, therefore, a situation of incomplete subscription as set forth in article 311 of the Companies Law would arise.

The main terms and conditions of the Underwriting Agreement are as follows:

A. Underwriting Obligation

All of the New Shares are subject to underwriting by the Underwriters under the Underwriting Agreement, which includes the commitment by the Underwriters to subscribe directly in name and on behalf and to pay out the New Shares in accordance with the terms set down in sections 5.1.3. D, 5.1.8(iii) and 5.4.3. A. The total number of New Shares underwritten, corresponding to 100% of the New Shares, will be known as the "**Total Underwriting Obligation**". The number of New Shares underwritten by each Underwriter and their percentages of the Total Underwriting Obligation are as follows:

	New Shares underwritten	
Underwriter	**(in numbers)**	**(as a %)**
Citigroup Global Markets Limited	291,646,549	**20.00%**
UBS Limited	291,646,549	**20.00%**
BNP PARIBAS	81,369,387	**5.58%**
Credit Suisse Securities (Europe) Limited	81,369,387	**5.58%**
Deutsche Bank AG, London Branch	81,369,387	**5.58%**
Goldman Sachs International	81,369,387	**5.58%**
HSBC Bank plc	81,369,387	**5.58%**
Morgan Stanley & Co International Plc	81,369,387	**5.58%**
Banco Bilbao Vizcaya Argentaria, S.A.	42,434,573	**2.91%**
CaixaBank, S.A. (in collaboration with Banco Português de Investimento, S.A.).	42,434,573	**2.91%**
Banca IMI, S.p.A.	36,455,819	**2.50%**
Barclays Bank PLC	36,455,819	**2.50%**
Crédit Agricole Corporate and Investment Bank	36,455,819	**2.50%**
ING Bank N.V.	36,455,819	**2.50%**
Mediobanca, Banca di Credito Finanziario, S.p.A.	36,455,819	**2.50%**
RBC Europe Limited	36,455,819	**2.50%**
Société Générale	36,455,819	**2.50%**
Wells Fargo Securities, LLC	36,455,819	**2.50%**
Jefferies International Limited	10,207,627	**0.70%**
Total Underwriting Obligation	**1,458,232,745**	**100%**

The underwriting obligation of each Underwrite will be reduced by the number of New Shares subscribed and paid up during the Pre-emptive Subscription Period, e Allocation Period for Additional Shares and the Discretionary Allocation Period, in proportion to their percentage of the Total Underwriting Obligation without prejudice to their pre-funding

obligations for the Shares Subject to Pre-funding assumed by the Global Coordinators (with the exception of Banco Santander).

Therefore, if 100% of the New Shares are subscribed and paid up during the three aforementioned periods, the Underwriters shall be released from their underwriting obligations.

By virtue of the Underwriting Agreement, the Global Coordinators (with the exception of Banco Santander) also undertake to pre-finance 100% of the Shares Subject to Pre-funding.

Consequently:

a. If, once the Discretionary Allocation Period has elapsed, 100% of the Discretionary Allocation Shares are placed, the Global Coordinators (with the exception of Banco Santander) undertake, acting in name and, where applicable, on behalf of the Underwriters in proportion to their underwriting obligation, which in turn act in name and on behalf of the final successful bidders, to pre-finance the number of Discretionary Allocation Shares that do not exceed the number of Underwritten Shares and that were subject to placement during the Discretionary Allocation Period.

b. If, once the Discretionary Allocation Period has elapsed, the sum of the New Shares subscribed by the Accredited Shareholders and the Investors in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares and, where applicable, by qualified Spanish or foreign investors in the Discretionary Allocation Period is less than the total number of New Shares, the Global Coordinators (with the exception of Banco Santander) in their own name and right, and in name and on behalf of the other Underwriters undertake to subscribe and pay up the New Shares, in exercise of their respective underwriting obligations.

If the Discretionary Allocation Period is not opened, the Underwriters will directly subscribe the corresponding Underwritten Shares in their own name and in proportion to their respective underwriting obligations at the Subscription Price. These Discretionary Allocation Shares will be paid up in accordance with section 5.1.8 above.

The underwriting obligations assumed by the Underwriters shall be joint in nature. Without prejudice to the foregoing, if any Underwriter fails to comply with its underwriting obligation, the remaining Underwriters will be required to jointly assume the underwriting of the New Shares corresponding to the infringing Underwriter, with a limit of 15% of the total amount underwritten and in proportion to their respective underwriting obligation. The infringing Underwriter shall not receive any underwriting fee, and the fees that would have corresponded thereto will be distributed among the Underwriters that complied with their obligations, in proportion to their respective underwriting obligations, but only to the extent that these fees correspond to the obligations of the infringing entity that were assumed by the other Underwriters. In the event that the infringement of the relevant Underwriter represents an amount higher than the referred 15%, which will not entail the termination of the Underwriting Agreement, the other Underwriters will not be obliged to assume the excess over the indicated 15% of the total underwriting commitment.

B. Fees

As remuneration for the obligations taken on by Citigroup Global Markets Limited and UBS Limited, as Global Coordinators, by virtue of the signing the stand-by underwriting agreement with the Bank on 7 June 2017 (terminated on 3 July 2017 on signing the Underwriting Agreement), the Bank will pay Citigroup Global Markets Limited and UBS Limited, within ten days of the stand-by underwriting agreement being terminated (i.e. no later than 13 July 2017), a fee, distributed equally between both parties, for a total weekly amount the equivalent to 0.03% of the underwriting agreement set down in that letter (EUR 7 billion), accrued at the start of each period of seven natural days from 7 June 2017 to 3 July 2017, on termination of the stand-by underwriting agreement.

In addition, Banco Santander will pay the following fees as remuneration for the services provided under the Underwriting Agreement, provided that it is not terminated on any of the grounds envisaged in section (C) below:

(a) To the Underwriters: an underwriting fee of 1.4% applied onto the result of multiplying the Total Underwriting Obligation by the Subscription Price. This underwriting fee will be distributed among the Underwriters in proportion to their percentage of the Total Underwriting Obligation.

(b) To the Global Coordinators: a *praecipum* of 0.6% applied onto the result of multiplying the Total Underwriting Obligation by the Subscription Price. This underwriting fee will be equally distributed among the Global Coordinators (including Banco Santander). In any case, the Banco Santander's credit right in relation to the *praecipium* fee in its role as Global Coordinator in the Underwriting Agreement will be extinguished due to confusion, and therefore no amount will be paid in favour of Banco Santander.

C. Grounds for termination and conditions precedent

The Underwriting Agreement may be terminated (i) at the decision of the Bank, following a non-binding consultation with the Global Coordinators (excluding Banco Santander), as far as reasonably possible in all the circumstances, whose opinion will be taken into account by the Bank, in the event that at any time between signing and the Pre-Funding Time (i.e., 07:00 a.m. Madrid time) on the Execution Date(scheduled for 27 July 2017) any of the force majeure events described below were to take place, or (ii) by unanimous decision of the Global Coordinators (excluding Banco Santander), following a non-binding consultation with the Bank as far as reasonably possible, in the event that at any time between signing and the Pre-Funding Time (i.e., 07:00 a.m. Madrid time) on the Execution Date the Global Coordinators agree unanimously (acting in good faith and reasonably and excluding Banco Santander) a force majeure event were to occur that renders it impracticable or unadvisable for the Underwriters and/or the Bank to continue to pursue the Capital Increase or for the Underwriters to continue to act as underwriters or joint bookrunners of the New Shares. For these purposes, the following will be considered force majeure events:

a) The occurrence of a Material Adverse Change after the date of the Underwriting Agreements.

For these purposes, a Material Adverse Change shall be understood to be any material adverse change, or any event that could reasonably give rise to a material adverse change in the Bank's rating, (financial, operating, legal or other) status, profits, management, business affairs, operations, funding position, solvency or estimates, or those of its subsidiaries taken as a whole and as one sole company, regardless of whether they arise in the ordinary course of the Bank's business or otherwise.

b) A material adverse change in the financial markets in Spain, the United States, the United Kingdom, the European Union or international financial markets.

c) A general suspension of securities trading declared by the Spanish Stock Exchanges, the London Stock Exchange or the New York Stock Exchange.

d) Suspension of the Bank's shares from trading on the Spanish Stock Exchanges, the London Stock Exchange or the New York Stock Exchange, either (a) for over 48 hours consecutively if it occurs before the start of the Pre-emptive Subscription Period; (b) for a period of over 24 hours consecutively if it occurs in the 13 first calendar days of the Pre-emptive Subscription Period; or (c) for over 6 hours consecutively during which time the Bank's shares would normally have been trading if it occurs between the day before the end of the Pre-emptive Subscription Period and the Execution Date (exclusive), except as a consequence of the Capital Increase this Securities Note refers to.

e) The outbreak or escalation of hostilities or similar conflict, or a large-scale terrorist attack or declaration of war or national emergency when this event has a material adverse effect on the Spanish Stock Exchanges, the London Stock Exchange or the New York Stock Exchange.

f) A significant change in the Spanish taxation system that affects New Shares, pre-emptive subscription rights, and where applicable, the transfer of any of these securities, or the implementation of currency controls in Spain or the United States.

g) A change in EU or Spanish legislation or official statement, or approval of a regulation that would be expected to bring about a change in EU or Spanish legislation that could materially and negatively affect the activities of the Bank and its subsidiaries taken as a whole, or the Capital Increase.

h) General suspension or a significant interruption of banking activities or securities clearing and settlement services in Spain, the United Kingdom or the United States declared by a competent authority.

i) Any nationalisation, or attempted nationalisation, or any other intervention by any government or government authority, Spanish or foreign, that could affect the Bank or any of its Main Subsidiaries, that the Global Coordinators (acting in good faith, and excluding Banco Santander) unanimously consider are likely to cause material damage for the Bank's shareholders, the value of the Bank's shares, its (financial, operating, legal or other) situation, estimates, profits, solvency, liquidity position or funding position. For these purposes, the Main Subsidiaries are Banco Popular Español, S.A., Banco Santander (Brasil) S.A. and Santander UK plc.

Banco Santander may, at its sole discretion and following a non-binding consultation with the Global Coordinators (excluding Banco Santander), terminate the Underwriting Agreement if it so deems it to be fit any time between the date of the Underwriting Agreement and 9:00 a.m. Madrid time, of the day of publication of the Capital Increase announcement in the Official Gazette of the Mercantile Registry (BORME) (expected to take place on 5 July 2017).

The Global Coordinators may take the unanimous decision (excluding Banco Santander), acting in good faith, and reasonably, and following a non-binding consultation with the Bank as far as reasonably possible in all circumstances to terminate the Underwriting Contract at any time between its signing and the Pre-Funding Time (i.e., 07:00 a.m. Madrid time) of the Execution Date (expected to take place on 27 July 2017) if (a) Banco Santander materially fails to comply with its obligations and commitments under the Underwriting Agreement, or (b) there is a material breach of the representations and guarantees extended by the Bank under the Underwriting Agreement, and this, in the unanimous opinion of the Global Coordinators (acting in good faith, and reasonably and excluding Banco Santander), gives rise to a Material Adverse Change (as described above).

If the Underwriting Agreement is terminated, this would be announced by Banco Santander in a material fact notices submitted to the CNMV and the Capital Increase would not be underwritten, and therefore might not be fully subscribed. This would have the following consequences, depending on the time of the force majeure event:

a) if the Underwriting Agreement is terminated no later than 9:00 a.m. Madrid time on the date on which the notice of the Capital Increase is published in the Official Gazette of the Mercantile Registry (expected to take place on 5 July 2017), the board of directors (or executive committee) of the Bank may decide not to carry out the Capital Increase, or, alternatively, may decide to continue with the Capital Increase without underwriting.

b) If the Underwriting Agreement is terminated no later than 9:00 a.m. Madrid time on the date on which the notice of the Capital Increase is published in the Official Gazette of the Mercantile Registry (expected to take place on 5 July 2017), the subscription proposals submitted by qualified investors during the Discretionary Allocation Period, regardless of whether any New Shares have been allocated to them or to any of the Underwriters in accordance with their underwriting obligations, shall be understood to be withdrawn and terminated and if the amount of the New Shares subscribed by Accredited Shareholders and Investors during the Pre-emptive Subscription Period or the Allocation Period for Additional Shares are insufficient to cover all the New Shares, the board of directors (or executive committee) of the Bank will declare the subscription to be incomplete and the Bank's share capital will be increased by the amount of the subscriptions made.

Additionally, the underwriting and pre-funding obligations of the Underwriters are subject to compliances, prior to the Pre-Funding Time (i.e., 07:00 a.m. Madrid time) on the Execution Date (expected to take place on 27 July 2017), with several conditions precedent for this type of transactions, summarised as follows: (i) delivery to the Underwriters of the legal opinions of the Bank's legal advisors in Spain and the United States; (ii) delivery to the Underwriters by Banco Santander's auditors of the comfort letters relating to specific financial data

included in the US prospectus and the Prospectus; (iii) delivery to the Underwriters by the Bank of an administrator's certificate relating to compliance with the Underwriting Agreement and the statements and guaranteed contained therein; and (iv) delivery to the Underwriters of a certificate issued by the Bank's CFO in relation to Banco Santander's earnings estimates for 30 June 2017, published on 3 July 2017 and included in the Prospectus, in the terms agreed in the Underwriting Agreement. If any of the aforementioned conditions precedent are not complied with before the above-mentioned Pre-Funding Time. on the Execution Date, the underwriting and pre-funding obligations of the Underwriters would not come into force and the consequences set down in paragraph (b) above would come into play, i.e. the subscription proposals submitted by qualified investors during the Discretionary Allocation Period would be understood to be revoked and if the amount of the New Shares subscribed by the Accredited Shareholders and Investors in during the Pre-emptive Subscription Period or the Allocation Period for Additional Shares are insufficient to cover all the New Shares, the Bank will declare the subscription to be incomplete. The Global Coordinators (with the exception of Banco Santander) by unanimous decision and following consultation with the Underwriters, may waive compliance with all or any of these conditions precedent.

D. Restrictions applicable to the Underwriters

The Underwriters have agreed to adhere to the following obligations:

(a) To comply with applicable regulations in the placement, in line with the legal restrictions set down in the Underwriting Agreement.

(b) Not to use documents or materials of any kind (including but not restricted to presentations, slides, brochures, letters or emails) relating to the Capital Increase that have not been previously approved in writing by the Bank.

(c) To collaborate with the Agent and with Banco Santander and to keep the Bank informed of any facts or circumstances, that they are aware of, that may arise during the Underwriting Agreement and that could affect the success of the Capital Increase.

(d) To comply with all the obligations included in the Prospectus and any supplement thereto, and with applicable law in Spain, and in particular, with the rules of conduct stipulated in the prevailing Securities Market Law, Regulation (EU) 596/2014 of the European Parliament and Council of 16 April 2014 on market abuse (MAR), the valid text of Royal Decree 217/2008, of 15 February, and Regulation (EC) 1287/2006 of the Commission, of 10 August 2006, implementing Directive 2004/39/CE of the European Parliament and Council of 21 April 2004, and applicable regulations in the foreign jurisdictions involved in the Capital Increase.

(e) Not to provide persons other than the Underwriters or the Bank with information on existing demand during the Discretionary Allocation Period, or any other data relating to the progress of the Capital Increase.

(f) To collaborate with the Bank and the Agent as deemed necessary or appropriate to ensure the success of the Capital Increase.

(g) To comply with obligations applying to them in virtue of the Underwriting Agreement, specifically in relation to the submission of information, and for the

Global Coordinators, in relation to pre-funding, to ensure that the shares are listed for trading on the scheduled date (i.e. 31 July 2017).

Additionally, the Underwriters, on their own behalf and for the entities of their respective groups, have agreed to adhere to the following restrictions, unless authorised not to do so by the Global Coordinators (with the exception of Banco Santander), acting unanimously, and the Bank, between the date of the announcement of the Capital Increase and the earliest of the following dates (i) the date on which the Agent informs the Global Coordinators of the total aggregate amount of the Discretionary Allocation Shares, and (ii) 5.00 p.m. Madrid time on the fourth working day after the end of the Pre-emptive Subscription Period:

(i) Not to sell the Bank's shares on their own account or induce the sale of the Bank's shares.

(ii) Not to buy sell options or sell buy options on the Bank on their own account in organised markets or outside the organised markets.

(iii) Not to perform any other transactions on their own account that could materially affect the price of the Bank's shares.

The restrictions mentioned in sections (i), (ii) and (iii) above will not apply to transactions made by the Underwriters to hedge their obligations, on highly liquid indices such as the IBEX 35, DJ EUROSTOXX BANKS, DJ STOXX BANKS, DJ EUROSTOXX 50 and DJ STOXX 50 to the extent that these hedge arrangements are restricted to transactions or indices in which Banco Santander's weighting is 20% or lower.

However, these restrictions shall not apply to (a) derivatives hedges of any type arranged on Banco Santander shares, (b) trading positions on Banco Santander securities, in both cases made by the Underwriter prior to the announcement of the transaction, or (c) any other hedging transactions relating to ordinary market making transactions or used to facilitate their customers' transactions. Further, there will be no restrictions on Underwriters that prevent them from performing restricted transactions for their customers, or from buying Banco Santander shares on their own account, provided that these transactions are made in the normal course of business, and comply with securities markets regulations in terms of rules of conduct and market abuse.

Each of the Underwriters is also obliged to provide Banco Santander will all documents relating to the Capital Increase that the Bank, acting reasonably, may request from them to meet the petitions or requirements from its regulators, subject to the legal, regulatory and compliance requirements to which the Underwriters are subject. In any case, all the placement entities must provide the Bank with any documents that it is required by the regulator to obtain directly from the corresponding Underwriter.

5.4.4 When the underwriting agreement has been or will be reached.

See section 5.4.3 above.

6. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

6.1 An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in

question. This circumstance must be mentioned, without creating the impression that the admission to trading will necessarily be approved. If known, the earliest dates on which the securities will be admitted to trading.

Exercising the authorisation granted to the board of directors at Banco Santander's general shareholders' meeting held on 7 April 2017, which included the power to delegate to the executive committee, and the delegation agreement in favour of the executive committee adopted by the Bank's board of directors on 26 June 2017, on 3 July 2017 Banco Santander's executive committee resolved to request the admission to trading of all of the New Shares on the Spanish Stock Exchanges and on those foreign stock exchanges on which the Bank's shares are listed (currently, the stock exchanges of Lisbon, London —through CDIs—, Milan, Buenos Aires, Mexico, Warsaw, New York —through ADSs—, and São Paulo —through BDRs—).

Once the Capital Increase deed, by virtue of which the New Shares will be issued, is registered with the Mercantile Registry of Cantabria, the Bank will request verification of compliance with the requirements for admission to trading of the New Shares by the CNMV and their admission to trading by the Spanish stock exchanges. Barring any unforeseen circumstances, the New Shares are expected to be admitted to trading on the Spanish Stock Exchanges on the same trading day as the New Shares are registered as book entries in Iberclear, i.e. on 28 July 2017, and trading is expected to begin on 31 July 2017. If there are any delays in the admission to trading, the Bank undertakes to immediately publish the reasons for the delay in the Listings Bulletins of the Spanish Stock Exchanges, and report the situation to the CNMV.

Banco Santander is aware of the requirements and conditions necessary for the admission to trading, continued trading and exclusion of the shares representing its share capital on the aforementioned organised secondary markets.

Banco Santander will also carry out the processes for admission of the New Shares to trading on the foreign Stock Exchanges on which its shares are listed (currently, the stock exchanges of Lisbon, London −through CDIs−, Milan, Buenos Aires, Mexico, Warsaw, New York −through ADSs−, and São Paulo −through BDRs−).

6.2 All the regulated markets or equivalent markets on which, to the knowledge of the issuer, securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.

Banco Santander's shares are listed on the Spanish stock exchanges, as well as the stock exchanges of Lisbon, London −through CDIs−, Milan, Buenos Aires, Mexico, Warsaw, New York −through ADSs− and São Paulo −through BDRs−.

6.3 If simultaneously or almost simultaneously with the creation of the securities for which admission to a regulated market is being sought securities of the same class are subscribed for or placed privately or if securities of other classes are created for public or private placing, give details of the nature of such operations and of the number and characteristics of the securities to which they relate.

Not applicable.

6.4 Details of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment.

Not applicable.

6.5 Stabilisation: where an issuer or a selling shareholder has granted an over-allotment option or it is otherwise proposed that price stabilising activities may be entered into in connection with an offer.

The issuer has not granted an over-allotment option or otherwise expects to enter into price stabilising activities with the Offer.

7. SELLING SECURITIES HOLDERS

7.1 Name and business address of the person or entity offering to sell the securities, the nature of any position office or other material relationship that the selling persons has had within the past three years with the issuer or any of its predecessors or affiliates.

Not applicable.

7.2 The number and class of securities being offered by each of the selling security holders.

Not applicable.

7.3 Lock-up agreements

By virtue of the Underwriting Agreement of the Capital Increase entered into by the Bank with the Underwriters on 3 July 2017 (and which replaces the stand-by underwriting agreement entered into between the Underwriters and the Bank on 7 June 2017), Banco Santander has undertaken with the Underwriters, on its own behalf and on behalf of its affiliates, except with the consent of the Global Coordinators (excluding Banco Santander), acting unanimously (which authorisation may not be unreasonably withheld or delayed), the Bank and its affiliates will not issue, offer, sell, agree to issue or sell, pledge or grant any security over, grant any option to purchase or, in any other way, directly or indirectly dispose of, or perform any transaction that might have an economic effect similar to the issuance or sale, or the announcement of the issuance or sale, of Bank shares, securities that are convertible or exchangeable into Bank shares, warrants, or any other instruments that might give the right to subscribe or acquire Bank shares, including by means of derivative transactions, from the date of the Agreement until ninety (90) days following the Closing Date.

Notwithstanding the foregoing, the Bank and its affiliates may, without the aforementioned authorization of the Global Coordinators (excluding Banco Santander) acting unanimously, announce or carry out: (a) activities arising from transactions that form part of the liquidity, treasury, treasury stock, ordinary market making or other securities and banking activities of the Bank or such affiliate, both for the Bank's or the affiliate's own account and on behalf of customers, to the extent that such activities are in the ordinary course of business of the Bank or such affiliate, including, but not limited to, the activities described in the Bank's SEC No-Action Letter, File No. TP 17-09; (b) issuances of shares as dividends or remunerations in

respect of the Bank ordinary shares (including any scrip dividend program of the Bank); (c) issuances and/or deliveries of options and shares granted to employees or officers of the Bank or its affiliates or other persons pursuant to related compensation arrangements within the framework of compensation for such employees, officers or other persons (including those shares that, within the framework of such programs, are subscribed or acquired by financial entities), as well as shares that are issued as a result of the exercise of such options, or issuances and/or deliveries of shares as a means of remuneration associated with certain financial products offered by the Bank to its clients (such as, without limitation, the "*Cuenta 1, 2, 3*"); (d) issuances of shares in connection with the conversion of convertible securities outstanding as of the date of the Underwriting Agreement; (e) transfers of shares between entities belonging to the same group (within the meaning of article 42 of the Spanish Commercial Code), provided that the party receiving the shares assumes a lock-up commitment for the remaining period thereof; (f) issuances of capital instruments that qualify as Additional Tier 1 Capital in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms; (g) issuances of shares in connection with the acquisition of, or a joint venture with, another company, provided that the number of shares issued shall not exceed 5% of the shares of the Bank then outstanding provided that the party receiving the shares assumes a lock-up commitment for the remaining period thereof (h) other issuances or deliveries of securities associated with strategic operations of the Bank, provided that (1) the party receiving the shares assumes a lock-up commitment for the remaining period thereof or (2) the issuance or delivery of securities is in exchange for non-cash consideration.

8. EXPENSE OF THE ISSUE/OFFER

8.1 The total net proceeds and an estimate of the total expenses of the issue/offer.

If the New Shares are fully subscribed at the Subscription Price, Banco Santander will obtain gross funds (i.e. prior to deducting the expenses listed below) of EUR 7,072,428,813.25. This amount will vary depending on the number of New Shares that are finally subscribed in the Capital Increase. The expenses of the Capital Increase (not including VAT) are indicated below. These are merely for information purposes, given the difficulty of determining their final amount at the date of this Securities Note:

Concept	Euros (estimated amount)
Fees and charges of the Spanish stock exchanges and Iberclear fees	759,160
CNMV fees (admission + prospectus registration)	70,700
Fees of the Global Coordinators (excluding Banco Santander) and the Underwriters by virtue of the Stand-by Underwriting Agreement and the Underwriting Agreement	135,184,425
Other expenses (notary, Mercantile Registry, legal advisory services, services related to auditing, advertising, printing, etc.)	12,918,968
TOTAL	148.933.253

* Estimate calculated for the maximum amount of EUR 7,072,428,813.25.

Given the aforementioned estimates, the expenses of the Capital Increase would represent approximately 2.1058% of the gross amount that Banco Santander would raise if it is

subscribed in full, with Banco Santander obtaining estimated funds, net of expenses, of EUR 6,923,495,560.25.

9. DILUTION

9.1 The amount and percentage of immediate dilution resulting from the offer.

As mentioned in section 5.1.3 of this Securities Note, the Bank's shareholders have a pre-emptive subscription right on the New Shares subject to the Capital Increase and, therefore, if the aforementioned right is exercised, there will be no dilution of their ownership interest in the Bank's share capital.

9.2 In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.

If none of the Bank's current shareholders subscribe New Shares in the percentage corresponding thereto as a result of their pre-emptive subscription rights, and assuming that the New Shares were fully subscribed by third parties (i.e. issuing a total of 1,458,232,745 New Shares), the ownership interest of the Bank's current shareholders would represent 90.909% of the total number of the Bank's shares that would result if the Capital Increase was subscribed in full, which would involve a dilution of 9.091% of the share capital prior to the Capital Increase.

10. ADDITIONAL INFORMATION

10.1 If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.

Without prejudice to the provisions of section 5.4 above, the following entities have provided advisory services in relation to the Capital Increase set out in this Securities Note:

- Uría Menéndez Abogados, S.L.P. acted as the legal advisor of Banco Santander in Spanish and Portuguese law for the Capital Increase;
- Davis Polk & Wardwell LLP acted as the legal advisor of Banco Santander in US federal law and New York State law for the Capital Increase;
- Slaughter and May acted as the legal advisor of Banco Santander in English law for the Capital Increase;
- Bonelli Erede acted as the legal advisor of Banco Santander in Italian law for the Capital Increase;
- Pérez Alati, Grondona, Benites, Arntsen & Martínez de Hoz(h) acted as the legal advisor of Banco Santander in Argentine law for the Capital Increase;
- Ritch Mueller, S.C. acted as the legal advisor of Banco Santander in Mexican law for the Capital Increase;
- Weil, Gotshal & Manges LLP acted as the legal advisor of Banco Santander in Polish law for the Capital Increase;
- Linklaters, S.L.P. acted as the legal advisor Spanish, English and US federal law of the Underwriters in the Capital Increase.

10.2 An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors and where auditors have produced a report. Reproduction of the report or, with permission of the competent authority, a summary of the report.

Not applicable.

10.3 Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to the effect that such statement or report is included, in the form and context in which it is included, with the consent of the person who has authorised the contents of that part of the Securities Note.

Not applicable.

10.4 Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information.

Not applicable.

11. DOCUMENTS INCLUDED BY REFERENCE

The following documents are included by reference (not as enclosed documents) and can be found on the Group's website (www.santander.com), and on the website of the CNMV (www.cnmv.es). Below are the links to all such documents:

- Audit report and consolidated financial statements for 2015.
- Audit report and consolidated financial statements for 2014.
- Directors' report for 2015.
- Directors' report for 2014.
- Additional information in response to CNMV requirements in relation to the financial statements for 2015 and 2014.
- Additional information in response to CNMV requirements in relation to the annual corporate governance report for 2015.
- Material fact containing earnings estimates published on 3 July 2017.

Furthermore, the following documents are attached to the Share Registration Document:

- Audit report and consolidated financial statements for 2016.
- Directors' report for 2016.
- Annual corporate governance report for 2016.
- Balance sheets and statements of income of Banco Santander, S.A. for 2016.

  Annual report on director's remuneration for 2016.

IV. MATTERS RELATING TO THE OFFER IN COUNTRIES OTHER THAN SPAIN IN WHICH THE ADMISSION TO TRADING OF THE NEW SHARES IS REQUESTED

1. PORTUGAL

1.1 Information regarding the New Shares

1.1.1 Book-entry register

As the Bank's shares trade on Euronext, the regulated market managed by Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. ("**Euronext Lisbon**"), such shares are registered in a "special issue account" (opened by Banco Santander Totta, S.A. ("**BST**"), acting as the financial interconnection intermediary under the terms of the agreement signed with the Bank) in the Central de Valores Mobiliários ("**CVM**"), managed by Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), with registered office in Porto (Avenida da Boavista, 3433 (4100-138 Porto - Portugal). This account was opened to ensure the existence of a permanent exact correspondence, under Portuguese legislation, between the Bank's shares registered in the "special issue account" and the shares blocked by the Bank, for purposes of their trading in Portugal.

Portuguese law establishes a series of procedures for the transfer of the Bank's shares to/from Portugal, particularly for purposes of trading on Euronext.

Therefore, for the purposes of trading in Portugal of the Bank's shares outstanding in Spain, the following procedures must be followed:

(i) The owners of the shares must instruct their respective depositories in Spain to transfer the relevant shares to the BST account in the Bank, for purposes of trading in Portugal; similarly, the depository in Spain must inform BST of the identity of the financial intermediary participant of the Portuguese central securities system (the CVM) in whose account the shares will be deposited for the purposes of trading on Euronext.

(ii) BST must block the shares and inform Interbolsa of those that need to be registered in BST's "special issue account" in the CVM and registered in the participant financial intermediary account in the CVM, for trading on Euronext.

(iii) Interbolsa will deposit the share in the participant financial intermediary's account in the CVM who may, from that moment on, order the sale of the shares.

For the purposes of trading in Spain of the Bank's shares outstanding in Portugal, the following procedures must be followed:

(A) The owners of the shares outstanding in Portugal must instruct their respective depositories in that country to transfer the shares with immediate effect to BST's *default* account in the CVM, having previously informed BST of the transfer and indicating the financial intermediary in Spain to which the shares will be transferred, in addition to any other transfer instructions.

(B) BST will inform Interbolsa of the number of shares that should be sufficient.

(C) After verifying that Interbolsa has deposited the indicated amount of shares in its default account, BST shall inform the Bank of the number of shares that will be unblocked in BST's account in the Bank, for the purpose of trading in Portugal and information on the financial intermediary in Spain to which the shares shall be transferred.

1.1.2 A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights

BST will act as payment agent in the exercise of the economic rights corresponding to the New Shares, under the terms of the contract signed with the Bank.

However, the CVM as part of its functions, will participate in all procedures relating to the exercise of these rights, in particular in relation to dividend payments.

A. Dividend rights

- Date or dates on which dividend rights accrue

  Dividends will be paid in Portugal on the same date that they are paid in Spain. During the two working days prior to the payment date, the shares will be trading on Euronext without dividend rights.

- Time limit after which entitlement to dividend lapses and an indication of the person in whose favour the lapse operates

  Returns on the shares shall be delivered in the form announced in each case through the CVM. The time limit for entitlement to collection rights shall be as set down in the Spanish Commercial Code: i.e. five years. The Bank shall be the beneficiary of this time limit.

B. Pre-emptive subscription rights in offers for subscription of securities of the same class.

The trading of the Bank's shares and pre-emptive subscription rights in the issue of new shares or bonds convertible into shares, in addition to bonus share rights will be subject to the following procedures in Portugal:

- The rights will be separated from the shares two working days prior to the start of the exercise / allotment period in Spain, so that transactions performed in Euronext can be settled up until the last working day prior to the first day of the exercise / allotment period in Spain, which will be the last day that the shares are traded with subscription rights in Euronext.
- On the first day of the exercise period in Spain and the following working day (inclusive), the shares will be traded without rights on Euronext. However, the rights will still not be traded separately during this period.
- The rights will be admitted to trading on Euronext on the second working day after the first day of the exercise / allotment period in Spain.
- Once the trading period for the free allocation rights has elapsed, two working days will be required to settle the transactions on the stock market. This period will not apply in respect of pre-emptive subscription rights for new shares, as in such event, Portuguese

law establishes that trading of these rights on the stock market must conclude on the third working day prior to the end of the exercise period for the corresponding right, without prejudice to the possibility of trading these rights outside the stock markets under general terms and conditions.

1.2 Information on taxes on income from the securities withheld at source

A general description of the tax regime applicable to the acquisition, ownership and potential subsequent sale of the New Shares under current Portuguese legislation (including the implementing regulations) in force as of the date on which this Securities Note is approved is provided below.

It must be borne in mind that this analysis does not cover all the potential tax consequences of the aforementioned transactions, or the regime applicable to all categories of shareholders, some of which (such as, for example, financial institutions, collective investment undertakings, cooperatives, look-through entities, etc.) may be subject to special regulations.

Consequently, potential investors should consult their lawyers or tax advisors, who will be in a position to provide them with personalised advice, considering their particular circumstances. Similarly, potential investors must be aware of any changes in legislation or interpretive criteria by the authorities that may arise in the future.

E. Indirect taxation of the acquisition and transfer of the securities

The acquisition and potential transfer of the New Shares is not subject to Stamp Duty (*Imposto do Selo*) ("**IS**") and is exempt from paying Value Added Tax (*Imposto sobre o Valor Acrescentado*).

F. Direct taxation of the ownership and subsequent transfer of the securities

(i) SHAREHOLDERS RESIDENT IN PORTUGAL

This section reviews the tax treatment for shareholders resident in Portugal and those who, although not residents of Portugal, act through a permanent establishment in that country.

(a) Natural persons

(a.1) Income tax

(a.1.1) Dividends

In accordance with the provisions of Section 15 of the Personal Income Tax Law (*Imposto sobre o Rendimento das Pessoas Singulares*) ("**IRS**"), natural persons resident in Portugal are subject to personal income tax for their worldwide income, including dividends distributed by non-resident companies.

Resident shareholders in Portugal are generally subject to a final tax rate of 28%.

If dividends are paid through a resident company, the tax will be paid through a withholding at the aforementioned tax rate of 28%, in accordance with sections 71.1.b) and 101.2.b) of the IRS Act.

This tax rate is final, unless the natural persons prefer to add such income (whereby only 50% will be taken into consideration in accordance with Section 40-A of the Personal Income Tax Act) to their other income of the same class of income, and have it taxed jointly under the

general tax scale of the IRS Act (maximum marginal rate of 48%), plus an extraordinary charge of 0.88% on tax income of between EUR 20,261 and EUR 40,522, of 2.75% on tax income of between EUR 40,522 and EUR 80,640 and of 3.21% on taxable income in excess of EUR 80,640, and an additional solidarity tax of 2.5% on taxable income of between EUR 80,000 and EUR 250,000 and 5% on taxable income in excess of EUR 250,000.

In addition, if shareholders opt to add their other income to the dividends, the tax that may have been withheld in Spain (which in accordance with the Double Taxation Agreement between Portugal and Spain, provided that the relevant requirements are met, may not exceed 15% of the full amount of the dividends paid) will give rise to the right to a tax credit for Portuguese IRS equal to the lesser of the following two amounts: (i) the tax paid in Spain; or (ii) the IRS that would correspond to this amount in Portugal (calculated prior to the tax credit).

(a.1.2) Capital gains and losses

Capital gains obtained by natural persons resident in Portugal from the transfer for consideration of the New Shares will be subject to IRS .

Shareholders who are natural persons may opt to pay taxes on the positive difference between capital gains and losses at a tax rate of 28%, or add this income to their other income of the same class of income, and have it taxed jointly under the general tax scale of the IRS Act (maximum marginal rate of 48%), plus an extraordinary charge of 0.88% on tax income of between EUR 20,261 and EUR 40,522, of 2.75% on tax income of between EUR 40,522 and EUR 80,640 and of 3.21% on taxable income in excess of EUR 80,640, and an additional solidarity tax of 2.5% on taxable income from between EUR 80,000 and EUR 250,000 and 5% on taxable income in excess of EUR 250,000.

When calculating the capital gain, the acquisition price must be increased by the expenses incurred in the acquisition and transfer of the New Shares.

Capital losses are not taken into account for tax purposes when the counterparty of the transaction is resident in a country or territory that: (i) is considered a tax haven under Order 150/2004, of 13 February, amended by Order 292/2011, of 8 November, and by Order 345-A/2016, of 30 December; or (ii) is considered a tax haven according to the criteria established in Section 63-D, 5 of Decree-Law 398/98, of 17 December, on General Taxation (*Lei Geral Tributária*).

The assignment and exercise of subscription rights for the New Shares will not be classified as taxable events. However, gains arising from the transfer for consideration of subscription rights will be taxed in Portugal in the same terms as the IRS applicable to the transfer for consideration of the aforementioned New Shares.

(a.2) Stamp Duty (inheritance and donations)

Non-lucrative transfers (through inheritance or donations) of the shares of entities that do not have their registered office or centre of effective management in Portugal, or a permanent establishment in this country, to natural persons resident in Portugal are not subject to IS (*Imposto do Selo*).

(b) Corporate taxpayers

(b.1) Income tax

(b.1.1) Dividends

As a general rule, taxpayers of corporate income tax (*Imposto sobre o Rendimento das Pessoas Colectivas*) ("**IRC**") (including non-resident entities that carry out activities in Portugal through a permanent establishment) must include in their taxable profit the amount of dividends or shares in profit as a result of owning the subscribed New Shares. In general, this will be subject to a tax rate of 21% (or 17% on the first EUR 15,000 of taxable profit, in the case of small- and medium-sized enterprises), increased eventually by a municipal charge of up to 1.5% of the taxable profit, as well as a national charge of 3% on taxable profit in excess of EUR 1,500,000 up to EUR 7,500,000, 5% of taxable profit in excess of EUR 7,500,000 up to EUR 35,000,000, and 7% of taxable profit in excess of EUR 35,000,000.

In addition, by virtue of the *Participation Exemption* regime, dividends or shares in profit are not included in the taxpayer's tax base when: (i) the direct, or direct and indirect, holding constitutes at least 10% of the share capital; and (ii) when this investment has been held continuously for the year prior to the date on which payment is made for the distribution of profit or, failing this, is held for the time required in order to complete the aforementioned year, provided that all of the requirements established in the IRC Act are met.

In addition, for companies resident in Portugal, and in accordance with the Double Taxation Agreement between Portugal and Spain, tax paid in Spain in relation to the dividends (which, provided that the related requirements are met, may not exceed 15% of the full amount of the dividends paid, or 10% if the company resident in Portugal has a direct or indirect ownership interest of at least 25% in the share capital of the Spanish company) will give rise to the right to a tax credit for Portuguese IRC equal to the lesser of the following two amounts: (i) the tax paid in Spain, or (ii) the Corporate Income Tax that would correspond to this amount in Portugal (calculated prior to the tax credit), once all costs or losses directly or indirectly arising from obtaining this income are deducted.

(b.1.2) Transfer of the securities

The capital gains resulting from the transfer for consideration of the New Shares or the transfer for consideration of the subscription rights of the New Shares must be included in the tax base of the taxpayers in relation to IRC, in the manner described in Section 46 et seq. of the IRC Code, and in general will be subject to a tax rate of 21% (or 17% on the first EUR 15,000 of taxable profit, in the case of small- and medium-sized enterprises), increased by a municipal charge of up to 1.5% of the taxable profit, as well as a national charge of 3% on taxable profit in excess of EUR 1,500,000 up to EUR 7,500,000, 5% of taxable profit in excess of EUR 7,500,000 up to EUR 35,000,000, and 7% of taxable profit in excess of EUR 35,000,000.

Income from the transfer of shares will not be subject to withholdings.

In general, the negative difference between the capital gains and losses that arise from the transfer of the New Shares must be included in the tax base of Corporate Income Tax taxpayers.

However, the portion of the capital losses arising as a result of the transfer of the New Shares that corresponds to the dividends or shares in profit or to the gains on the sale of shares of the same company that were not included, by virtue of the Participation Exemption regime, in the tax base of the Corporate Income Tax taxpayer for this tax period or one of the four previous taxable periods, will not be taken into consideration for tax purposes.

Notwithstanding the general framework described above, in accordance with the Participation Exemption regime, gains and losses on the sale of the New Shares, provided they directly, or direct and indirectly, represent 10% of share capital and are held for at least a full 12 months as of the date of their transfer, will not be taken into consideration in determining the taxable profit of IRC taxpayers.

Lastly, if the shares are acquired by a corporate income tax taxpayer for no consideration, the income generated will also be taxed at a rate of 21% (or 17% on the first EUR 15,000 of taxable profit, in the case of small- and medium-sized enterprises), increased by a municipal charge of up to 1.5% of the taxable profit, as well as a national charge of 3% on taxable profit in excess of EUR 1,500,000 up to EUR 7,500,000, 5% of taxable profit in excess of EUR 7,500,000 up to EUR 35,000,000, and 7% of taxable profit in excess of EUR 35,000,000.

(ii) NON-RESIDENT SHAREHOLDERS IN PORTUGAL

In accordance with the provisions of section 15.2 of the IRS Code and section 4.2 of the IRC Code, non-resident shareholders shall only be subject to tax on income obtained in Portuguese territory.

The Bank does not have its central offices or centre of effective management in Portugal, or a permanent establishment in this country to which the payment of the aforementioned income could be attributed.

Therefore, the income from the New Shares attributable to non-resident entities in Portugal will not be subject to taxation in Portugal as it is considered foreign income.

1.3 Indication as to whether the issuer assumes responsibility for the withholding of taxes at source

As the Bank does not have its central offices or centre of effective management in Portugal, or a permanent establishment in this country to which the payment of the aforementioned income could be attributed, it does not assume any liability with regard to withholdings for Portuguese taxes.

1.4 Terms, expected timetable and subscription procedures for the Capital Increase in Portugal

1.4.1 Clauses and conditions of the Capital Increase

For any terms or conditions of the Capital Increase not expressly included in this section IV.1.4 and section III.5of the Securities Note.

1.4.2 Expected timetable of the Capital Increase

The expected timetable of the Capital Increase is shown below. The process is described in greater detail below the timetable and in sections IV.1.4.3 to IV.1.4.6.

Expected timetable of the Capital Increase in Portugal

Action	Estimated date
Approval and registration of the Securities Note in the CNMV	4 July 2017
Publication of (i) the announcement in the Official Gazette of the Mercantile Registry in Spain, and (ii) of the announcement of the Capital Increase in Portugal on the CMVM website and the Euronext Lisbon Official Gazette, and last day of trading for the shares "with rights" (*"Last trading Date"*)	5 July 2017
First day of trading of the shares "without rights" *"Ex-Date"*)	6 July 2017
Cut-off date on which Interbolsa will determine positions for allocation of pre-emptive subscription rights ("*Record Date*") in Portugal	7 July 2017
Payment date for the subscription rights by Interbolsa in Portugal	10 July 2017
Launch of Pre-emptive Subscription Period (1st round) and request for Additional Shares in Portugal	10 July 2017
Start of the trading period for Pre-emptive Subscription Rights on Euronext	10 July 2017
End of trading of Pre-emptive Subscription Rights on Euronext	17 July 2017
End of Pre-emptive Subscription Period and request for Additional Shares	20 July 2017
If applicable, Allocation Period for Additional Shares (2nd round)	26 July 2017
Delivery of the New Shares subscribed in Portugal during the Pre-emptive Subscription Period, and, if applicable, the Allocation Period for Additional Shares	27 July 2017
Notarisation of the public deed	27 July 2017
Registration of the notarised Capital Increase deed with the Mercantile Registry	27 July 2017
Admission to trading of the New Shares by Euronext Lisbon	31 July 2017
Estimated day for admission to trading of the New Shares on Euronext	1 August 2017

The Bank has established the above schedule taking into account the most likely dates on which each one of the milestones is likely to take place. These dates are merely for guidance. There can be no certainty that the actions will take place on these dates. If there is any delay in the schedule, the Bank will report this through a material fact as soon as possible.

1.4.3 Subscription periods

The shares in this Capital Increase may be subscribed in the periods indicated below:

(1) Pre-emptive Subscription Period, and, if applicable, request for Additional Shares (first round)

As described in section III.4.6.1above, in the Capital Increase, the Bank's shareholders have a pre-emptive subscription right for the New Shares, as follows:

(i) Allocation of pre-emptive subscription rights.

In Portugal, the pre-emptive subscription rights for the New Shares will be assigned to Banco Santander shareholders that are accredited as such in Interbolsa's accounting records at 11:59 p.m. Lisbon time on the second day after the start of the Pre-emptive Subscription Period in Spain. The assignment of pre-emptive subscription rights is expected to take place during Interbolsa's overnight processing on 7 July 2017 (the cut-off date or "*Record Date*"), so that they are available in the Portuguese shareholders' securities accounts on 10 July 2017.

The Bank's shares in Euronext up until 5 July 2017 (inclusive) will confer the right to take part in the Capital Increase.

(ii) Transfer of rights.

Pre-emptive subscription rights will be transferable under the same conditions as the shares from which they arise, in accordance with the provisions of article 306.2 of the Spanish Companies Law, and traded on Euronext as described in section IV.1.4.6 below.

(iii) Exercise of rights.

In Portugal, the Pre-emptive Subscription Period will last for eleven (11) natural days, starting on the second working day after the start of the Pre-emptive Subscription Period in Spain. In Portugal, the Pre-emptive Subscription Period is expected to begin on 10 July 2017 and end on 20 July 2017, both inclusive. Pre-emptive subscription rights will be traded in the stock market sessions between the first day of the subscription period in Portugal (expected to be 10 July 2017) and the third working day prior to the end of this period (expected to be on 17 July 2017), both inclusive, without prejudice to being traded outside the market. Therefore, although subscription orders of New Shares and Additional Shares may be submitted up until 20 July 2017 (inclusive), pre-emptive rights will be only be traded on Euronext until 17 July (inclusive). Accredited Shareholders (as defined in section III.5.1.3.(B)(i) above) that have not transferred all of their pre-emptive subscription rights, and investors (as defined in section III.5.1.3.(B)(iv)below) may exercise their rights in the proportion required to subscribe New Shares.

Any pre-emptive subscription rights not exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period.

(iv) Request for Additional Shares.

During the Pre-emptive Subscription Period, Accredited Shareholders who have exercised all of the pre-emptive subscription rights they hold at that time in the financial intermediary in question, and Investors who acquire pre-emptive subscription rights and exercise these rights in full, may request, at the same time they exercise these rights, through the financial intermediary with which they are held, the subscription of Additional Shares (as defined in section III.5.1.3.(B)(v)above) in case any there are any Excess Shares (as defined in section III.5.1.3.(B)(v)above) at the end of the Pre-emptive Subscription Period in Portugal, and therefore, the maximum amount to be subscribed in this Capital Increase is not covered.

The orders relating to the request for Additional Shares must be placed for a certain amount or number of shares and there will not be any quantitative limit. The orders made for a certain amount shall be considered placed for the number of Additional Shares resulting from dividing the amount requested in euros by the Subscription Price and rounding down to the nearest whole number of Additional Shares.

The financial intermediaries shall be responsible for verifying that the Accredited Shareholders and the Investors requesting Additional Shares have exercised all the pre-emptive subscription rights deposited at the time with the financial intermediary in question.

Without prejudice to the fact that they may not be met in full, orders relating to requests for Additional Shares shall be considered final, irrevocable and unconditional. As is the case with orders placed when exercising the pre-emptive subscription right, orders corresponding to requests for Additional Shares shall not be affected by the termination of the Underwriting Agreement or the non-entry into force of the underwriting and pre-funding obligations envisaged therein.

(v) Exercise procedure. To exercise the pre-emptive subscription rights, and where applicable request the subscription of Additional Shares, the Accredited Shareholders and/or Investors should contact the financial intermediary whose accounting records contain the pre-emptive subscription rights (which in the case of the Accredited Shareholders will be the entity in which the shares granting said rights are held), indicating that they intend to exercise their pre-emptive subscription rights, and where applicable, request the subscription of Additional Shares (for which they must have exercised all of their pre-emptive subscription rights).

Orders processed in relation to the exercise of pre-emptive subscription rights will be considered final, irrevocable and unconditional and include the subscription of New Shares to which they refer. Orders relating to requests for Additional Shares should be made for a specified amount, will not have a quantitative limit and will be considered final, irrevocable and unconditional, without prejudice to the fact that requests for Additional Shares may not be addressed in full, on application of the allocation rules for Excess Shares described in section IV.1.4.3(2) below. As described in this section, Excess Shares allocated to those requesting Additional Shares will be considered to be subscribed during the Allocation Period for Additional Shares (as described in section III.5.1.3(C) above).

The issue price of each New Share subscribed during the Pre-emptive Subscription Period must be paid up in full in accordance with the provisions of section IV.1.4.5 below.

(vi) Financial intermediary reporting to Interbolsa and BST

Subscription orders must be transmitted by the financial intermediaries to Interbolsa, through the usual system for processing subscription orders in capital increases with pre-emptive subscription rights for shareholders and no later than 4 p.m. Lisbon time (5 p.m. Madrid time) on the last day of the Pre-emptive Subscription Period (i.e. 20 July 2017).

During the Pre-emptive Subscription Period, the financial intermediaries must report daily to BST the total number of New Shares subscribed in exercise of pre-emptive subscription rights and the total number of Additional Shares requested, with cumulative figures from the start of the Pre-emptive Subscription Period.

BST may choose not to accept those communications from financial intermediaries that have been sent at a time or date subsequent to that indicated, or those that do not meet any of the requirements or instructions required for these communications in this Securities Note or in current legislation, without assuming any liability and without prejudice to any possible liability that may be incurred by the infringing financial intermediary with regard to the holders of the orders placed within the period with the said financial intermediary.

The Subscription Price of the New Shares subscribed during the Pre-emptive Subscription Period must be paid up in full in accordance with the provisions of section IV.1.4.5 below.

(2) Allocation Period for Additional Shares (second round)

If there are Excess Shares at the end of the Pre-emptive Subscription Period, a process of allocating Additional Shares will be opened in which the Excess Shares will be distributed among the Accredited Shareholders and Investors who applied to subscribe Additional Shares, in the manner indicated below.

Additional Shares will be allocated in the Allocation Period for Additional Shares (as described in section III.5.1.3(C) above). The Additional Shares are expected to be allocated on 26 July 2017.

On this date, the Agent will determine the number of Excess Shares and allocate them to Accredited Shareholders or Investors who have applied for Additional Shares in accordance with the provisions of section III.5.1.3(B)(v) above. Under no circumstances will Accredited Shareholders and/or Investors be awarded more shares than they applied for. The award of Additional Shares is subject to the existence of Excess Shares following the Pre-emptive Subscription Period.

If the number of Additional Shares requested to be subscribed in the Allocation Period for Additional Shares is equal to or less than the number of Excess Shares, they will be allocated to the applicants until the requests are covered in full.

If the number of Additional Shares requested is greater than the Excess Shares, the Agent will allocate them on a pro-rata basis in accordance with the rules described in section III.5.1.3(C) above.

The Agent will notify BST, which will in turn inform Interbolsa of the number of Excess Shares allocated to those requesting Additional Shares, no later than third trading day following the date on which the Pre-emptive Subscription Period ends. The Agent is expected to send the aforementioned notice to BST, and BST to send it to Interbolsa on 26 July 2017.

The Excess Shares allocated to those requesting Additional Shares will be deemed to be subscribed during the Allocation Period for Additional Shares.

The Subscription Price of the Excess Shares allocated during the Allocation Period for Additional Shares must be paid up in full in accordance with the provisions of section IV1.4.5 below.

1.4.4 A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants

The possibility of reducing the subscriptions in the Pre-emptive Subscription Period has not been envisaged. However, the effective maximum number of Additional Shares that may be subscribed by shareholders and investors will depend on the number of Excess Shares and the rules for allocating Excess Shares described in section III.5.1.3(C) above.

The Subscription Price of each New Share subscribed during the Allocation Period for Additional Shares must be paid up in cash by the subscribers when the New Shares are subscribed during the Pre-emptive Subscription Period (i.e. when the request for Additional Shares is placed), through the financial intermediaries through which the subscription orders for Additional Shares are placed. Requests for Additional Shares that are not paid up in accordance with the terms indicated will not be considered to have been placed. In any case, if the number of Additional Shares finally allocated to each applicant is less than the number of Additional Shares requested thereby, the financial intermediary will be required to return the amount corresponding to the funds provided, or to the excess not awarded, to said applicant, free of any expenses or fees, in accordance with the procedures applicable to these financial intermediaries. If there is a delay in returning the funds, the financial intermediary must pay the late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until this effectively takes place.

However, investors may revoke their subscription orders in those cases and under the terms indicated in Article 126 of the *Código dos Valores Mobiliários*.

1.4.5 Method and time limits for paying up the securities and for delivery of the securities

G. Payment of the shares

(1) <u>New Shares subscribed in the Pre-emptive Subscription Period.</u>

The Subscription Price of each New Share subscribed during the Pre-emptive Subscription Period must be paid up in cash by the subscribers when the New Shares are subscribed (i.e. when the subscription order is placed), through the financial intermediaries through which the subscription orders are placed.

The New Shares subscribed during the Pre-emptive Subscription Period will be settled by the Bank of Portugal on the fifth trading day following the end of the Pre-emptive Subscription Period (i.e. 27 July 2017).

(2) New Shares subscribed in the Allocation Period for Additional Shares.

The Subscription Price of each New Share subscribed during the Allocation Period for Additional Shares must be paid up in cash by the subscribers when the New Shares are subscribed during the Pre-emptive Subscription Period (i.e. when the request for Additional Shares is placed), through the financial intermediaries through which the subscription orders for Additional Shares are placed. Requests for Additional Shares that are not paid up in accordance with the terms indicated will not be considered to have been placed.

The New Shares subscribed during the Allocation Period for Additional Shares will be settled by the Bank of Portugal on the fifth trading day following the end of the Pre-emptive Subscription Period (i.e. 27 July 2017).

H. Delivery of New Shares

The New Shares will be registered with Iberclear as rapidly as possible once the Capital Increase deed has been registered with the Cantabria Mercantile Registry.

On the same day as the registration with the Iberclear central registry, BST will inform Interbolsa in order to carry out the corresponding registrations in their accounting records in favour of the investors who subscribed the New Shares. Interbolsa will provide the financial intermediaries with the reference numbers of the book entries corresponding to their respective positions for the New Shares subscribed during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares through Interbolsa members.

1.4.6 The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

I. Holders

Accredited Shareholders and/or Investors who hold pre-emptive subscription rights for the New Shares shall be entitled to pre-emptive subscription in accordance with section 1.4.3 above.

On the trading day following the "Record Date" (i.e. the "Payment Date"), which is set for 10 July 2017, Interbolsa will credit the pre-emptive subscription rights corresponding thereto in the accounts of its members, sending them the related communications such that they can in turn credit these to the accounts of the Accredited Shareholders.

J. Negotiability

Pre-emptive subscription rights will be transferable under the same terms as the shares from which they derive, pursuant to article 306.2 of the Companies Law and may be traded on Euronext between the third working day of the exercise period established in Spain and the second working day before the end of that period, i.e. between 10 July 2017 and 17 July 2017, and may also be traded outside the regulated market on the terms established.

K. Unexercised subscription rights

Any pre-emptive subscription rights for New Shares will be automatically extinguished at the end of the Pre-emptive Subscription Period in Portugal.

1.4.7 Prices

The Bank will not charge any expenses to subscribers of New Shares. No expenses will accrue and be charged to investors participating in the Capital Increase as a result of the initial registration of the New Shares in the accounting records of Interbolsa. However, financial intermediaries that keep records of the holders of Banco Santander shares may freely determine their fees and recoverable administrative expenses for maintaining the securities in their accounting records, in accordance with current legislation.

Further, the financial intermediaries through which the subscription is placed may also freely determine the fees and recoverable expenses for processing the subscription orders for the securities and the purchase and sale of pre-emptive subscription rights, in accordance with current legislation.

The foregoing is understood without prejudice to any special conditions that might apply in other jurisdictions under their respective laws.

1.5 Placement and underwriting

1.5.1 Name and address of the coordinator(s) of the global offer and of single parts of the offer and, to the extent known to the issuer or to the offeror, of the placers in the various countries where the offer takes place.

Banco Santander Totta, S.A., with registered address in Rua Áurea, 88, 1100-063 Lisbon, Portugal, with Tax Identification Number 500844321, will act as placement entity in Portugal for the New Shares in this Capital Increase.

1.5.2 Name and address of any paying agents and depository agents in each country.

Banco Santander Totta, S.A., with registered address in Rua Áurea, 88, 1100-063 Lisbon, Portugal, with Tax Identification Number 500844321, will act as paying agent in Portugal.

1.6 Admission to trading and dealing arrangements

The admission to trading of the New Shares on Euronext is subject to the approval of Euronext Lisbon, as established in the *Código dos Valores Mobiliários* and implementing regulations, in particular the market rules approved for Euronext Lisbon.

The decision to admit the shares for trading issued by Euronext Lisbon does not guarantee the content of the information, the issuer's financial and economic situation, its viability or the quality of the securities listed, pursuant to article 234.2 of the *Código dos Valores Mobiliários*.

Banco Santander expects that, barring unforeseen developments, the New Shares shall be admitted to trading on Euronext the day after the day on which the New Shares are expected to be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, as described in section III.6.1 above.

1.7 Representative for relations with the market

The Bank's representative for relations with the market in Portugal is:

Name:	Manuel António Amaral Franco Preto
Address:	Rua da Mesquita, n.º 6, Torre B - 3.ºC, 1070-238 Lisbon
Telephone:	+351 213 704 000
Fax:	+351 23 705 870
E-mail:	manuel.preto@santander.pt

2. UNITED KINGDOM

2.1 Terms, expected timetable and subscription procedures for the Capital Increase in the United Kingdom

2.1.1 Registered holders of Bank shares through Iberclear

Persons who hold their shares in a securities account with a participant in Iberclear should refer to section III.5.1 above.

2.1.2 Registered holders of CDIs

For conditions, anticipated schedule and procedure for subscription of the Capital Increase in the United Kingdom, persons who are registered holders of CDIs should refer to sections III.5.1 above and, in addition, the information set out in the rest of this section. Note that the anticipated schedule is subject to change; with regard to final CREST deadlines please refer to the CREST Graphical User Interface ("**GUI**").

E.C. Nominees Limited is the registered shareholder of the Banco Santander shares to which CDI Holders are entitled. As a result of the Capital Increase, E.C. Nominees Limited will receive pre-emptive subscription rights to acquire New Shares by virtue of its current Banco Santander shareholding. It is expected that such rights will be transferred for the account of CIN (Belgium) Limited on behalf of CDI Holders. In order to allow CDI Holders to participate in the Capital Increase, Euroclear UK & Ireland has indicated that it will arrange for the stock accounts of registered CDI Holders to be credited with pre-emptive subscription rights ("**CDI Pre-emptive Rights**") to acquire additional CDIs representing additional Banco Santander shares ("**New CDIs**") as set out in more detail below.

A. Anticipated schedule

Anticipated schedule for the Offer in United Kingdom	
Action	**Estimated date**
Approval and registration of the Securities Note by the CNMV	4 July, 2017
Publication of the Securities Note on the Bank's website and announcement to a Regulatory Information Service in the UK	4 July, 2017
Publication of announcement in the Official Bulletin of the Commercial Registry in Spain	5 July, 2017

Anticipated schedule for the Offer in United Kingdom	
Action	**Estimated date**
Commencement of the Pre-emptive Subscription Period and for the request of Additional Shares.....	6 July, 2017
CDI Pre-emptive Rights credited to CREST accounts.....	6 July, 2017
Deadline for CREST instructions in respect of the Capital Increase to be submitted.....	2.00 pm (London time) on 18 July, 2017
Additional Shares Allocation Period.....	26 July, 2017
Execution of the notarial instrument	27 or 28 July, 2017
Registration of the increase with the Commercial Registry of Cantabria (Spain).....	27 or 28 July, 2017
Assignment by Iberclear to the Underwriters of the registration references corresponding to the New Shares subscribed for	28 July, 2017
CREST accounts credited with New CDIs.....	28 July, 2017
Admission of New Shares to the official list of the UKLA and to trading on the London Stock Exchange	8.00 am (London time) on 31 July, 2017

B. Allocation of Pre-emptive Subscription Rights

Euroclear UK & Ireland has indicated that it will arrange for the credit of CDI Pre-emptive Rights to the CREST accounts of those persons who are the registered holder of CDIs as at 11.59 pm (Madrid time) on the date of publication of the announcement of the Capital Increase in the BORME (such persons and/or investors that acquire CDI Pre-emptive Rights and are thus holders thereof each being a "**CDI Pre-emptive Rights Holder**"). The aforementioned announcement is expected to be published on 5 July 2017. If any transfer of CDIs has not settled by that time and date, Euroclear UK & Ireland has indicated that the transferor, not the transferee, will be considered the CDI Holder for the purposes of the Capital Increase.

C. Subscription rights

Euroclear UK & Ireland has indicated that, for each existing CDI, the CDI Holder will be entitled to one (1) CDI Pre-emptive Right, and 10 CDI Pre-emptive Rights will be required to subscribe for a New CDI. In accordance with the terms and conditions of the Capital Increase, Euroclear UK & Ireland has indicated that each New CDI subscribed for in exercise of CDI Pre-emptive Rights must be subscribed for at the Pre-emptive Subscription Price, i.e., 4.85 euros per share and in accordance with the procedure set forth in section 2.1.2(F) below.

D. Transferability of rights

Euroclear UK & Ireland has indicated that the CDI Pre-emptive Rights will be transferable under the same conditions as the CDIs to which they attach. However, the CDI Pre-emptive Rights will not be admitted to trading on the London Stock Exchange.

If a CDI Pre-emptive Rights Holder wishes to sell any of his CDI Pre-emptive Rights he can cancel such rights and effect the transfer of the underlying pre-emptive subscription rights in New Shares in accordance with the relevant rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction). The underlying pre-emptive subscription rights in New Shares will be tradable on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and through the Spanish Automated Quotation System (Continuous Market) as set forth in section III.5.10(B).

E. Request for additional CDIs

During the CDI Pre-emptive Subscription Period, CDI Pre-emptive Rights Holders may, at the time of exercising their CDI Pre-emptive Rights, in addition and on an unconditional and irrevocable basis, (in accordance with section 2.2.2(G) below) request to subscribe for additional CDIs representing New Shares ("**Additional CDIs**") in contemplation of the possibility that, at the expiration of the Pre-emptive Subscription Period there are Surplus Shares and therefore, the total amount of this Capital Increase has not been covered.

In no event will CDI Pre-emptive Rights Holders receive more CDIs than requested by them. The allocation of Additional CDIs is subject to: (i) the existence of Surplus Shares after the exercise of all pre-emptive subscription rights; and (ii) the allotment of Additional Shares to CIN (Belgium) Limited, as a result of which Euroclear UK & Ireland has indicated it will arrange for the issue of Additional CDIs to CDI Pre-emptive Rights Holders who have submitted a valid request for Additional CDIs. In circumstances where CIN (Belgium) Limited is not allocated sufficient Additional Shares to issue the total number of Additional CDIs requested, Euroclear UK & Ireland has indicated that it will arrange for the issue of Additional CDIs to CDI Pre-emptive Rights Holders pro rata to the number of Additional CDIs each CDI Pre-emptive Rights Holder requested (i.e. using the same formula used for Additional Shares set out in section III.5.1.3(C).

F. Procedure for exercise of CDI preemption rights through CREST

In order to exercise the CDI Pre-emptive Rights, Euroclear UK & Ireland has indicated that CDI Pre-emptive Rights Holders must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event instruction (a "**USE Instruction**") to Euroclear UK & Ireland which, on its settlement, will have the following effect: (i) the crediting of a stock account of CIN (Belgium) Limited under the participant ID and member account ID specified below, with the number of CDI Pre-emptive Rights taken up; and (ii) the creation of a settlement bank obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favor of the RTGS settlement bank of CIN (Belgium) Limited in respect of the full amount payable on acceptance in respect of the CDI Pre-emptive Rights referred to in the sub-paragraph (i) above.

Euroclear UK & Ireland has indicated that, on the same day as but following the issue of the New Shares to CIN (Belgium) Limited (and subject to full reconciliation having been completed by Euroclar Bank early enough in the day), the stock account of the accepting CDI Pre-emptive Rights Holder (being an account under the same participant ID and member account ID as the account from which the CDI Pre-emptive Rights were debited on settlement of the USE Instruction) will be credited with the number of CDIs to which the CDI Pre-

emptive Rights Holder is entitled as a result of exercising his CDI Pre-emptive Rights referred to in sub-paragraph (i) above.

The USE Instruction must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of CDI Pre-emptive Rights to which the acceptance relates (which must be a number divisible by 10);
- the participant ID of the accepting CDI Pre-emptive Rights Holder;
- the member account ID of the accepting CDI Pre-emptive Rights Holder from which the CDI Pre-emptive Rights are to be debited;
- the participant ID of CIN (Belgium) Limited, in its capacity as a CREST receiving agent. This is RECEC;
- the member account ID of CIN (Belgium) Limited, in its capacity as a CREST receiving agent, which will be available in the CREST GUI interface;
- the amount payable by means of the CREST assured payment arrangements on settlement of the USE Instruction. This must be the full amount payable on acceptance in respect of the number of CDIs to which the acceptance relates;
- the intended settlement date (which must be on or before 2.00 pm on 18 July, 2017);
- the CDI Pre-emptive Right ISIN Number. This will be available by viewing the relevant corporate action details in CREST; and
- the Corporate Action Number for the Capital Increase. This will be available by viewing the relevant corporate action details in CREST.

An USE Instruction complying with each of the requirements as to authentication and contents set out above will constitute a valid acceptance where the USE Instruction settles by not later than 2.00 pm on 18 July, 2017.

A CDI Pre-emptive Rights Holder who makes a valid acceptance in accordance with this section represents, warrants and undertakes to the Bank that he has taken (or procured to be taken), and he will take (and will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that (i) at all time his acceptance is made in accordance with the terms of the Capital Increase set out in this Securities Note and (ii) the USE Instruction concerned is capable of settlement not later than 2.00 pm on 18 July, 2017 (or such later time and date as Euroclear UK & Ireland may determine). In particular, the CDI Pre-emptive Rights Holder, warrants and undertakes that at the intended time and date of settlement of the USE Instruction, there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the USE Instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt.

CDI Pre-emptive Rights Holder should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular corporate action. Normal system

timings and limitations will therefore apply in relation to the input of a USE Instruction and its settlement in connection with the Capital Increase. It is the responsibility of the CDI Pre-emptive Rights Holder concerned to take (or, if the CDI Pre-emptive Rights Holder is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 2.00 pm on 18 July, 2017. In connection with this, CDI Pre-emptive Rights Holder are referred in particular to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.

A CDI Pre-emptive Rights Holder who makes a valid acceptance in accordance with the procedures set out above: (a) undertakes to pay to CIN (Belgium) Limited, or procure the payment to CIN (Belgium) Limited of, the amount payable in euros on acceptance in accordance with the above procedures or in such other manner as CIN (Belgium) Limited may require (it being acknowledged that, where payment is made by means of a RTGS payment mechanism (as defined in the CREST Manual) the creation of a RTGS settlement bank payment obligation in euros in favor of CIN (Belgium) Limited's RTGS settlement bank (as defined in the CREST Manual), in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CDI Pre-emptive Rights Holder to pay to CIN (Belgium) Limited the amount payable on acceptance); and (b) requests that the New CDIs, to which they will become entitled, be issued to them on the terms set out in this document and subject to the CREST Deed Poll.

Euroclear UK & Ireland may: (a) reject any acceptance constituted by an USE Instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out above; (b) treat as valid (and binding on the CDI Pre-emptive Rights Holder) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this section; (c) accept an alternative properly authenticated dematerialised instruction from a CDI Pre-emptive Rights Holder or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an USE Instruction and subject to such further terms and conditions as Euroclear UK & Ireland may determine; (d) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid acceptance if, at the time at which Euroclear UK & Ireland receives a properly dematerialized instruction giving details of the first instruction, Euroclear UK & Ireland has received actual notice of any matters specified in Regulation 35(5)(a) of the CRESTCo Regulations in relation to the first instruction. The matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and (e) accept an alternative instruction or notification form from a CDI Pre-emptive Rights Holder or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an USE Instruction or any alternative instruction or notification if, for reasons or due to circumstances outside the control of any CDI Pre-emptive Rights Holder or CREST sponsor, the CDI Pre-emptive Rights Holder is unable to validly take up all of part of his CDI Pre-emptive Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Euroclear UK & Ireland in connection with CREST.

Where an acceptance is made as described in this section which is otherwise valid, and the USE Instruction concerned fails to settle by 2.00 pm on 18 July, 2017 (or by such later time as Euroclear UK & Ireland may determine), Euroclear UK & Ireland shall be entitled to assume, for the purposes of its right to reject an acceptance as described in this section, that there has been a breach of the representations, warranties and undertakings set out or referred to in this section.

G. Procedure to request additional CDIs through CREST

In order to request Additional CDIs, Euroclear UK & Ireland has indicated that a CDI Pre-emptive Rights Holder must submit (or, if they are a CREST sponsored member, procure that their CREST sponsor submits) a cash-only USE Instruction in respect of the Subscription Price of the Additional CDIs requested. In addition, they should also ensure that the 'shared note' field (on the 'shared' tab) is populated with the number of Additional CDIs that they wish to subscribe for. If the amount of Additional CDIs specified in the 'shared note' field does not reconcile with the cash consideration received then the election will be deemed to be invalid and will be returned to the CDI Pre-emptive Rights Holders with no further communication.

In the event that the 'shared note' field is not populated with the amount of Additional CDIs required then the full amount of cash will be returned to the CDI Pre-emptive Rights Holders with no action being taken by Euroclear UK & Ireland. Further, no communication will be made by Euroclear UK & Ireland to inform the CDI Pre-emptive Rights Holders of the invalid election.

If the number of Additional CDIs credited to the account of a Holder of Premptive CDI Subscription Rights is lower than the number of Additional CDIs requested, Euroclear UK & Ireland has undertaken to reimburse the excess over the subscription price of the Additional CDIs that had been credited, free of fees and expenses (but, for the avoidance of doubt, Euroclear UK & Ireland will not be liable for any losses made in any related currency conversion to or from Euros).

The cash-only USE Instruction submitted must create a settlement bank obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favor of the RTGS settlement bank of CIN (Belgium) Limited in respect of the full amount payable for the Additional CDIs requested. Euroclear UK & Ireland has indicated that, on the same day as but following the issue of the Additional Shares to CIN (Belgium) Limited, the stock account of the CDI Pre-emptive Rights Holder who submitted a request for Additional CDIs (being an account under the same participant ID and member account ID as the account detailed in the USE Instruction) will, subject to the rules on allocation set out in section 2.1.2(E) below, be credited with the number of Additional CDIs requested.

The cash-only USE Instruction must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

– the number of Additional CDIs requested;

– the participant ID of the CDI Pre-emptive Rights Holder submitting the request;

- the member account ID of the CDI Pre-emptive Rights Holder to which the Additional CDIs are to be credited;
- the participant ID of CIN (Belgium) Limited, in its capacity as a CREST receiving agent. This is RECEC;
- the member account ID of CIN (Belgium) Limited, in its capacity as a CREST Receiving Agent, which will be available in the CREST GUI interface;
- the amount payable by means of the CREST assured payment arrangements on settlement of the cash-only USE Instruction. This must be the full amount payable in respect of the number of Additional CDIs requested; and
- the intended settlement date (which must be on of before 2.00 pm on 18 July, 2017).

A cash-only USE Instruction complying with each of the requirements as to authentication and contents set out above will constitute a valid acceptance where the cash-only USE Instruction settles by not later than 2.00 pm on 18 July, 2017.

A CDI Pre-emptive Rights Holder who makes a valid request in accordance with this section represents, warrants and undertakes to the Bank that he has taken (or procured to be taken), and he will take (and will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that (i) at all time his request for Additional CDIs is made in accordance with the terms of the Capital Increase set out in this Securities Note and (ii) the cash-only USE Instruction concerned is capable of settlement not later than 2.00 pm on 18 July, 2017 (or such later time and date as Euroclear UK & Ireland may determine). In particular, the CDI Pre-emptive Rights Holder warrants and undertakes that at the intended time and date of settlement of the cash-only USE Instruction there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on submitting the request to permit the cash-only USE Instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt.

CDI Pre-emptive Rights Holders should note that normal system timings and limitations will apply in relation to the input of a cash-only USE Instruction and its settlement in connection with the Capital Increase. It is the responsibility of the CDI Pre-emptive Rights Holder concerned to take (or, if the CDI Pre-emptive Rights Holder is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid request is received as stated above by 2.00 pm on 18 July, 2017. In this connection, CDI Pre-emptive Rights Holders are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

A CDI Pre-emptive Rights Holder who makes a valid request in accordance with the procedures set out above: (a) undertakes to pay to CIN (Belgium) Limited, or procure the payment to CIN (Belgium) Limited of, the amount payable in euros on submission of the request in accordance with the above procedures or in such other manner as CIN (Belgium) Limited may require (it being acknowledged that, where payment is made by means of a RTGS payment mechanism (as defined in the CREST Manual) the creation of a RTGS settlement bank payment obligation in euros in favor of CIN (Belgium) Limited's RTGS settlement bank (as defined in the CREST Manual), in accordance with the RTGS payment

mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CDI Pre-emptive Rights Holder to pay to CIN (Belgium) Limited the amount payable on submission of the request); and (b) requests that any Additional CDIs, to which they may become entitled, be issued to them on the terms set out in this document and subject to the CREST Deed Poll.

Euroclear UK & Ireland may: (a) reject any request constituted by a cash-only USE Instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out above; (b) treat as valid (and binding on the CDI Pre-emptive Rights Holder) a request which does not comply in all respects with the requirements as to validity set out or referred to in this section; (c) accept an alternative properly authenticated dematerialised instruction from a CDI Pre-emptive Rights Holder or (where applicable) a CREST sponsor as constituting a valid request in substitution for, or in addition to a cash-only USE Instruction and subject to such further terms and conditions as Euroclear UK & Ireland may determine; (d) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid request if, at the time at which Euroclear UK & Ireland receives a properly dematerialised instruction giving details of the first instruction, Euroclear UK & Ireland has received actual notice of any matters specified in Regulation 35(5)(a) of the CRESTCo Regulations in relation to the first instruction. The matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and (e) accept an alternative instruction or notification form from a CDI Pre-emptive Rights Holder or (where applicable) a CREST sponsor, or extend the time for requesting Additional CDIs and/or settlement of a cash-only USE Instruction or any alternative instruction or notification if, for reasons or due to circumstances outside the control of any CDI Pre-emptive Rights Holder or CREST sponsor, the CDI Pre-emptive Rights Holder is unable to validly submit a request by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Euroclear UK & Ireland in connection with CREST.

Where a request is made as described in this section which is otherwise valid, and the cash-only USE Instruction concerned fails to settle by 2.00 pm on 18 July, 2017 (or by such later time as Euroclear UK & Ireland may determine), Euroclear UK & Ireland shall be entitled to assume, for the purposes of its right to reject a request as described in this section, that there has been a breach of the representations, warranties and undertakings set out or referred to in this section.

Requests for Additional CDIs will be deemed to be made on a firm, irrevocable and unconditional basis, even though they may not be met in their entirety by application of the rules for allocation of the Surplus Shares described in section III.5.1.3(C) above or the rules for allocation of Additional CDIs described below.

The allocation of Additional CDIs is subject to: (i) the existence of Surplus Shares after the exercise of all pre-emptive subscription rights; and (ii) the allocation of Additional Shares to CIN (Belgium) Limited. In circumstances where CIN (Belgium) Limited is not allocated sufficient Additional Shares to issue the total number of Additional CDIs requested, Euroclear UK & Ireland has indicated it will arrange for the issue of Additional CDIs to CDI Pre-

emptive Rights Holders pro rata to the number of Additional CDIs each CDI Pre-emptive Rights Holder requested (i.e., using the same formula used for Additional Shares set out in Section III.5.1.3.(C) above).

H. Procedure for exercise and request through Iberclear

Euroclear UK & Ireland has indicated that CDI Holders will be able to cancel their CDIs and effect the transfer of the underlying Banco Santander shares in accordance with the rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction). If the underlying Banco Santander shares are transferred into a shareholding account with a depositary financial institution which is a participant of Iberclear, the applicant will be able to exercise their rights under the Capital Increase and request Additional Shares in accordance with section III.5.1.3 above.

2.1.3 Holdings through the corporate nominee service

Persons who hold CDIs through the Santander corporate nominee services operated by Equiniti Limited and Capita Registrars Limited will be contacted by the relevant corporate nominee directly.

2.2 Information on income tax on the securities withheld at source

The following comments are intended only as a general guide to the UK tax position as at the date of this document and are based on the Bank's understanding of current legislation as it is applied in England and Wales and published H.M. Revenue & Customs practice (which may not be binding on H.M. Revenue & Customs), both of which are subject to change at any time, possibly with retrospective effect. These comments deal only with the position of Banco Santander shareholders and CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the Santander corporate nominee services operated by Equiniti Limited and YBS Share Plans) who are resident (and, in the case of individuals only, domiciled) in (and only in) the United Kingdom (for UK tax purposes) and to whom "split year" treatment does not apply, who are the absolute beneficial owners of the New Shares or CDIs representing New Shares (the "**New CDIs**") and who hold their New Shares or New CDIs as an investment (and not as securities to be realised in the course of a trade). The discussion does not address all possible tax consequences relating to an investment in New Shares or New CDIs and also does not deal with the position of certain classes of Banco Santander shareholders or CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the Santander corporate nominee services operated by Equiniti Limited and YBS Share Plans), such as dealers in securities, broker-dealers, insurance companies, collective investment schemes, those subject to specific tax regimes or benefitting from certain reliefs or exemptions and persons who have acquired (or are deemed for tax purposes to have acquired) their New Shares or New CDIs by reason of an office or employment.

This section does not constitute tax advice or purport to be a comprehensive analysis of all the potential tax consequences of the Capital Increase. Shareholders or prospective shareholders who are in any doubt about their tax positions or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional tax advisors immediately.

(i) Dividends

For the purposes of this section on dividends, references to New Shares include references to New CDIs issued in respect of the New Shares, references to Banco Santander shareholders include references to CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the Santander corporate nominee services operated by Equiniti Limited and YBS Share Plans) and it is assumed that a holder of New CDIs is the absolute beneficial owner of the underlying New Shares.

A holder of New Shares who is an individual resident (for tax purposes) in the UK will generally be subject to tax on gross amount of dividends paid before deduction of any Spanish tax withheld in the following manner:

- All dividends received by an individual Banco Santander shareholder from the Bank (or from other sources) will, except to the extent that they are earned through an individual savings account, self-invested pension plan or other regime which exempts the dividends from tax, form part of that shareholder's total income for income tax purposes and will represent the highest part of that income.

- A nil rate of income tax will apply to the first £5,000 of taxable dividend income received by an individual Banco Santander shareholder in a tax year (the "**Nil Rate Amount**"). A reduction in the Nil Rate Amount to £2,000 with effect from 6 April 2018 was announced as part of the Spring Budget 2017. The implementing provisions were not, however, included in the Finance Act 2017. It is therefore not certain whether and when the reduction will come into effect.

- Any taxable dividend income received by an individual Banco Santander shareholder in a tax year in excess of the Nil Rate Amount is taxed at a special rate, as set out below.

Where an individual Banco Santander shareholder's dividend income for a tax year exceeds the Nil Rate Amount, the excess amount (the "**Relevant Dividend Income**") will, subject to the availability of any income tax personal allowance, be subject to income tax at the following rates for the 2017/18 tax year:

- at the rate of 7.5%, to the extent that the Relevant Dividend Income falls below the threshold for the higher rate of income tax;

- at the rate of 32.5%, to the extent that the Relevant Dividend Income falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax; and

- at the rate of 38.1%, to the extent that the Relevant Dividend Income falls above the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the Relevant Dividend Income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the individual Banco Santander shareholder's total taxable dividend income for the tax year in question (including the part within the Nil Rate Amount) will, as noted above, be treated as the highest part of that shareholder's total income for income tax purposes.

A corporate holder of New Shares who is resident in the UK or carries on a trade in the UK through a permanent establishment in connection with which its New Shares are held will generally be subject to UK corporation tax on the gross amount of any dividends paid by the Bank before deduction of any Spanish tax withheld, unless (subject to special rules for such shareholders that are "small companies", for the purpose of UK taxation of dividends) the dividends fall within an exempt class and certain other conditions are met. Each such shareholder's position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Bank would fall within an exempt class.

Spanish withholding tax will be deducted from the cash dividend payment at a rate of 19%. Banco Santander shareholders resident (for tax purposes) in the UK may be eligible to apply for a lower rate of withholding tax of 10%. Spanish withholding tax can generally be credited against a shareholder's UK tax liability on the dividend, at a maximum of rate of 10% of the gross dividends, but excluding any withholding tax which is eligible to be refunded. However, the credit cannot reduce the tax liability on the payment below zero. Depending on the individual shareholder's circumstances, a full or partial refund of the Spanish withholding tax from the Spanish tax authorities may be claimed.

(ii) Taxation of chargeable gains

For the purposes of this section on taxation of chargeable gains, references to New Shares include references to New CDIs issued in respect of the New Shares, references to Banco Santander shares include references to CDIs issued in respect of Banco Santander shares, and references to Banco Santander shareholders include references to CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the Santander corporate nominee services operated by Equiniti Limited and YBS Share Plans) and it is assumed that a holder of New CDIs is the absolute beneficial owner of the underlying New Shares.

It is expected that, for the purposes of UK taxation of chargeable gains, H.M. Revenue & Customs will treat the issue of the New Shares by the Bank to a Banco Santander shareholder, up to his maximum entitlement arising from his pre-emptive subscription rights, as a reorganisation of the share capital of the Bank.

Accordingly, a Banco Santander shareholder will not be treated as making a disposal of his corresponding holding of existing shares in the Bank to the extent he takes up his pre-emptive subscription rights to New Shares and no immediate liability to UK taxation of chargeable gains should arise.

Instead, the New Shares acquired up to the maximum entitlement arising from his pre-emptive subscription rights will be treated as the same asset as, and as having been acquired at the same time as, the relevant Banco Santander shareholder's existing holding and the subscription money for those New Shares will be added to the base cost for the relevant Banco Santander shareholder's existing holding.

In the case of a Banco Santander shareholder within the charge to corporation tax, indexation allowance will apply to the amount paid for the New Shares only from, generally, the date the money for the New Shares is paid or is liable to be paid, not from the time the existing holding was acquired.

Any New Shares acquired in excess of the maximum entitlement arising to a Banco Santander shareholder from his pre-emptive subscription rights (i.e. any acquisition of Additional Shares) will be treated as if it were a separate acquisition of those shares in the open market.

If a Banco Santander shareholder sells or otherwise disposes of all or part of the New Shares subscribed by him, or of his pre-emptive subscription rights to subscribe for New Shares, he may, depending on his circumstances, incur a liability to UK taxation of chargeable gains. If the proceeds resulting from the disposal of pre-emptive subscription rights to New Shares are "small" compared with the value of the Banco Santander shares in respect of which the pre-emptive subscription rights arose, the relevant shareholder should not normally be treated as making a disposal for the purposes of UK taxation of chargeable gains, in which case no immediate liability to chargeable gains will arise and the proceeds will be deducted from the base cost of his existing holding for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal. Please note that the base cost of Banco Santander shares will be nil for UK tax purposes if they derive from an allocation received by that shareholder on demutualisation of Abbey National plc or Alliance & Leicester plc.

H.M. Revenue & Customs currently regard a receipt as "small" if its amount or value is 5% or less of the market value (on the date of disposal) of the shares in respect of which the entitlement to the receipt arose, or if its amount or value is £3,000 or less, regardless of whether or not it is more than 5% of the market value (on the date of disposal) of the shares in respect of which the rights giving right to the receipt arose.

For the Spanish tax consequences of the Capital Increase (which may apply to Banco Santander shareholders who are resident or ordinarily resident in the United Kingdom (for UK tax purposes)), Banco Santander shareholders should refer to section III.4.11(2)(ii).

(iii) Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable on the crediting of CDI Pre-emptive Rights to accounts in CREST or on the registration of New CDIs in the name of the CDI Holder or on the crediting of New CDIs in uncertificated form to a CREST account in the name of the CDI Holder.

No stamp duty will be payable on the issue of pre-emptive subscription rights to New Shares or on the issue of New Shares. No SDRT will be payable on the issue of pre-emptive subscription rights to New Shares or on the issue of New Shares, so long as the New Shares are not:

(a) registered in a register kept in the United Kingdom by or on behalf of the Bank; or

(b) paired with shares issued by a company incorporated in the United Kingdom.

An instrument of transfer relating to pre-emptive subscription rights to New Shares, CDI Pre-emptive Rights, New Shares or New CDIs, which is executed in the United Kingdom or which relates to a matter or thing done or to be done in the United Kingdom, may be liable to UK ad valorem stamp duty at the rate of 0.5% of the consideration, rounded up to the nearest £5, except where the amount or value of the consideration for the sale is £1,000 or less and the instrument is certified at £1,000.

An agreement to transfer New Shares or pre-emptive subscription rights to New Shares will not be liable to SDRT so long as, at the time of the agreement:

(a) the New Shares (and, in relation to the transfer of subscription rights, the shares from which the subscription rights derive) are not registered in a register kept in the United Kingdom by or on behalf of the Bank; and

(b) the New Shares (and, in relation to the transfer of subscription rights, the shares from which the subscription rights derive) are not paired with shares issued by a company incorporated in the United Kingdom.

An agreement to transfer New CDIs or CDI Pre-emptive Rights will not be liable to SDRT so long as, at the time of the agreement:

(a) the Bank is not centrally managed and controlled in the United Kingdom;

(b) the New Shares (and, in relation to the transfer of CDI Pre-Emptive Rights, the shares from which the CDI Pre-Emptive Rights derive) are not registered in a register kept in the United Kingdom by or on behalf of the Bank; and

(c) the New Shares (and, in relation to the transfer of CDI Pre-Emptive Rights, the shares from which the CDI Pre-Emptive Rights derive) are of the same class as shares in the Bank which are listed on a recognised stock exchange (which currently includes the London, Madrid, Barcelona, Valencia and Bilbao Stock Exchanges).

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person, including market makers, brokers, dealers and persons connected with depository arrangements and clearance services, are not liable to stamp duty or SDRT or may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

For the avoidance of doubt, neither the Bank nor Euroclear UK & Ireland will be liable to Banco Santander shareholders nor CDI Holders or their successors, transferees or assignees for any stamp duty or SDRT arising pursuant to the Capital Increase or otherwise.

(iv) Inheritance tax

For the purposes of this section on inheritance tax, references to New Shares include references to New CDIs issued in respect of the New Shares, and references to Banco Santander shareholders include references to CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the Santander corporate nominee services operated by Equiniti Limited and YBS Share Plans) and it is assumed that a holder of New CDIs is the absolute beneficial owner of the underlying New Shares.

Where an individual Banco Santander shareholder is domiciled (or deemed to be domiciled) in the UK for UK inheritance tax purposes, a gift of New Shares or the pre-emptive subscription rights to subscribe for New Shares, or the death of that individual Banco Santander shareholder, may give rise to a liability to UK inheritance tax, depending upon the Banco Santander shareholder's circumstances and subject to any available exemption or relief. A transfer of New Shares, or the pre-emptive subscription rights to subscribe for New Shares, at less than market value may be treated for inheritance tax purposes as a gift.

Special rules apply to close companies and to trustees of settlements which hold New Shares, or the pre-emptive subscription rights to subscribe for New Shares, which may bring them within the charge to inheritance tax.

The UK inheritance tax rules are complex and Banco Santander shareholders should consult an appropriate professional adviser in any case where those rules may be relevant, particularly in (but not limited to) cases where individual Banco Santander shareholders intend to make a gift of New Shares, to transfer New Shares at less than market value, or to hold New Shares through a company or trust arrangement, or where they intend to take any of these actions in relation to their pre-emptive subscription rights to subscribe for New Shares.

2.3 Indication as to whether the issuer assumes responsibility for the withholding of taxes at source.

The Bank, as the issuer and payer of income that may result from ownership of the New Shares, undertakes to make withholdings on account of taxes in Spain pursuant to prevailing regulations.

3. ITALY

3.1 Particularities relating to the Capital Increase in Italy

Shareholders of Record whose shares of the Bank are deposited with depositaries which are participants in Monte Titoli S.p.A. (the "**Depositaries**") may exercise their pre-emptive subscription rights and, if they wish so, request the subscription of Additional Shares by placing orders to such effect with the said Depositaries.

Pre-emptive subscription rights will be transferable under the same conditions as the shares to which they attach, pursuant to Section 306.2 of the Business Corporations Law, and they shall be traded on the Spanish Stock Exchanges and through the Spanish Automated Quotation System (Continuous Market) *(Sistema de Interconexión Bursátil Español (Mercado Continuo))*. In addition, the pre-emptive subscription rights shall be traded on the Stock Exchange of Buenos Aires, Argentina, subject to the applicable Argentine regulations, and in Portugal on *Euronext* between the third business day of the period established for the exercise thereof in Spain and the third business day prior to the end of such period, without prejudice to the trading thereof outside of the exchange.

In Italy pre-emptive subscription rights must be exercised during the Pre-emptive Subscription Period, which is expected to begin on 6 July 2017 and end on 20 July 2017, both inclusive. See section III.5.1.3 of the Security Note for further information on the exercise of the pre-emptive rights and the relevant timetable. Each subscriber must submit its submission application subject to the conditions and timeframe communicated to them by their intermediary, to ensure compliance with the Pre-emptive Subscription Period. To this end, subscribers may need to submit their subscription applications sufficiently in advance in order to comply with the Pre-emptive Subscription Period.

Any pre-emptive subscription right non exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period.

Depositaries will give notice to Monte Titoli S.p.A. ("**Monte Titoli**"), which is in turn one of the Participants, of the total number of New Shares subscribed for in the exercise of the pre-emptive rights and of the total number of Additional Shares, by electronic messages or

otherwise, by following the operating instructions as may be established for such purpose by Monte Titoli and with such timing as to enable Monte Titoli to notify in turn such data to the Agent not later than 6pm Madrid time on the third trading day following the end of the Pre-emptive Subscription Period (i.e., foreseeably on 25 July 2017).

In Italy Accredited Shareholders and Investors that that had requested Additional Shares in accordance with that set forth in section 5.1.3 (B) (v) will be entitled to receive Excess Shares as allocated by the Agent pursuant to section 5.1.3 (C) of the Security Note to the extent permitted by the offering procedures in place in Italy. In this respect it should be noted that the schedule for the offering in Italy could be subject to potential revisions due to the different offering procedures in effect in Italy. In particular, holders of shares deposited with authorised intermediaries in Italy are informed that the Issuer could provide additional information in Italy concerning the methods and deadlines of the offering. To this end, subscribers may need to submit their subscriptions applications sufficiently in advance of the of the Pre-emptive Subscription Period.

See section 5.1.3 of the Security Note for further information.

Any public announcement made by Banco Santander by means of a notice of material fact after approval of the Capital Increase by the Bank's Executive Committee will be notified to the *Commissione Nazionale per le Società e la Borsa* - CONSOB and Borsa Italiana S.p.A., as well as to two Italian press agencies, on the same day on which it is made.

3.2 Information on taxes on income from the securities withheld at source

The following is a general summary of current legislation and practice relating to certain Italian tax implications concerning the purchase, ownership and disposal of the New Shares by Italian resident shareholders. It does not purport to be a complete analysis of all tax considerations that may be relevant to any investor's decision to purchase, own or dispose of the New Shares and does not purport to deal with all the tax consequences applicable to all categories of shareholders, some of which may be subject to special rules. This section is not intended to be exhaustive with respect to the tax treatment of the New Shares and does not describe the tax treatment and all tax consequences applicable to all the categories of possible Italian investors.

Therefore, investors in Banco Santander New Shares should consult their tax advisers as to the consequences under Italian tax law, under the tax laws of the country in which they are resident for tax purposes and of any other potentially relevant jurisdiction of acquiring, holding and disposing of Banco Santander New Shares.

This section is based upon Italian Tax Law in force as of the date of the Prospectus.

Italian Tax Law could be subject to changes, which could also be retroactively introduced. In such a case, Banco Santander will not update this section to reflect the changes occurred, even in the case that – as a consequence of such changes – the information contained in this section are superseded.

(i) Preliminary definitions

The tax treatment of the dividends paid by the Company as well as capital gains (and/or capital losses) arising from the transfer of the New Shares may vary depending on whether

the shareholding from which the dividends are paid and/or the capital gains (and/or losses) arise are considered "Qualified Shareholding" or not for income tax purposes.

A "Qualified Shareholding" consists of a shareholding, inclusive of any shares (except for savings shares), such as the New Shares, rights or securities through which the shares may be acquired, representing, in the aggregate: (i) more than 2% of voting rights in an ordinary shareholders' meeting, or 5% of the company's share capital, for shareholding held in a company listed on a regulated market; and (ii) more than 20% of voting rights in an ordinary shareholders' meeting, or 25% of the company's share capital, for shareholding held in a company not listed on a regulated market. A "Non-Qualified Shareholding" consists of a shareholding other than a Qualified Shareholding.

A sale of a Qualified Shareholding consists of any sale of shares (except for savings shares), such as the New Shares, rights or securities through which the shares may be acquired, exceeding the limits of a Qualified Shareholding in any 12-month period. The 12-month period starts from the date on which the shares, rights or securities owned represent a percentage of voting rights or interest in the capital exceeding the aforesaid thresholds. With respect to the rights and securities through which the shares may be acquired, the percentages of voting rights and share capital potentially deriving from such shares are taken into account.

A sale of a Non-Qualified Shareholding consists of any sale of shares, such as the New Shares, rights or securities through which the shares may be acquired, other than a sale of a Qualified Shareholding.

(ii) **Dividends**

The tax regime applicable to dividends paid on the New Shares depends inter alia on the legal status of the Italian resident receiver.

The taxation may vary as follows.

Shareholders resident in Italy for income tax purposes

(a) Individual shareholders

Dividends received by individual shareholders holding the New Shares not in connection with a business activity who are resident in Italy for income tax purposes in relation to a Non-Qualified Shareholding and are registered in the centralized deposit system managed by Monte Titoli are subject to a final substitute tax at the rate of 26%. As a result of the application of this substitute tax, shareholders are not required to report received dividends on their tax returns. The 26% substitute tax may be withheld by any authorized resident or non-resident depository of the New Shares that is a member of the centralized deposit system managed by Monte Titoli, as well as by members of foreign centralized deposit systems that participate in the Monte Titoli and it is applied on dividends received, net of any tax which could have been paid abroad. For these purposes, non-resident intermediaries must appoint a fiscal representative in Italy, such as banks, Italian resident broker-dealers, permanent establishments in Italy of non-resident banks and broker-dealers, or an investment management company authorized pursuant to the Financial Services Act. If dividends are directly paid abroad (i.e. without any involvement of any financial intermediary), the taxpayer must report the dividends in its annual tax return in order to determine the amount subject to substitute tax.

Dividends paid to individual shareholders who are resident in Italy for income tax purposes in relation to a Non-Qualified Shareholding and that have entrusted the management of their financial assets, including the New Shares, to an authorized intermediary and have expressly elected for the *risparmio gestito* regime (as illustrated below) are not subject to the tax regime described above, but are included in the computation of the accrued annual increase in value of the managed assets, subject to a 26% substitute tax provided for by Art. 7 of Legislative Decree of 21 November 1997, No. 461 (see the paragraph relating to taxation of capital gains realized by resident individual shareholders from the Sale of a Non-Qualified Shareholding, below).

Dividends received by individual shareholders who are resident in Italy for income tax purposes holding the New Shares not in connection with a business activity in relation to a Qualified Shareholding are not subject to any withholding or substitute tax, provided that a declaration in this respect is rendered to the payor upon payment of the dividends. Such dividends are however included in the individual shareholders' taxable income, subject to personal income tax (IRPEF) for 49.72% of their amount as to dividends paid out of profits realized in the tax periods subsequent to that in progress on 31 December 2007. Art. 1, paragraph 64 of Law No. 208 of 2015 provides that the above 49,72% percentage will be re-determined through the issuance of a specific Decree by the Ministry of Economy and Finance. Such a Decree will reduce the above rate in order to reflect the reduced corporate income tax rate (i.e. 24% as of 1st January 2017).

A tax credit may be provided for tax levied abroad according to specific rules and within certain limits provided for by Italian tax law. In the event dividends are received through an Italian financial intermediary, a provisional withholding tax is levied at a rate equal to 26% on the 49,72% of the net fronting amount (i.e. the net amount after any possible foreign taxation). This withholding is subsequently treated as credit in the shareholders' tax return.

Dividends received by individual shareholders who are resident in Italy for income tax purposes holding the New Shares in connection with a business activity are not subject to any withholding or substitute tax, provided that a declaration in this respect is rendered to the payor upon payment of the dividends. Such dividends - gross of any possible taxation levied abroad - are however included in the individual shareholders' taxable income, subject to IRPEF for 49.72% of their amount as to dividends paid out of profits realized in the tax periods subsequent to that in progress on 31 December 2007. A tax credit may be provided for tax levied abroad according to specific rules and within certain limits provided for by Italian tax law. Art. 1, paragraph 64 of Law No. 208 of 2015 provides that the above 49,72% percentage will be re-determined through the issuance of a specific Decree by the Ministry of Economy and Finance. Such a Decree will reduce the above rate in order to reflect the reduced corporate income tax rate (i.e. 24% as of 1st January 2017).

(b) Partnerships, companies, commercial entities and non-commercial entities

Dividends received by (i) partnerships and similar entities or (ii) companies subject to the corporate income tax (IRES), such as joint stock companies, partnerships limited by shares, limited liability companies, public and private entities (other than companies) and trusts whose sole or principal purpose is to carry on a business activity, and (iii) non-commercial public and private entities (other than companies) and trusts subject to IRES, which are

resident in Italy for income tax purposes, are not subject to any withholding tax and are included in the recipients' overall taxable income.

In particular, dividends received by:

(i) Partnerships and similar entities (e.g., *società in nome collettivo* or *società in accomandita semplice* and assimilated entities) are included in the recipient's taxable income subject to ordinary taxation for 49.72% of their amount as to dividends paid out of profits realized in the tax periods subsequent to that in progress on 31 December 2007.

(ii) Commercial entities subject to IRES (e.g., commercial entities such as *società per azioni or S.p.A.* or *società in accomandita per azioni or S.a.p.a.* or *società a responsabilità limitata or S.r.l.*, commercial public and private entities (other than companies) and trusts) are included in the entities' total taxable income (subject to corporate income tax with the rate of 24%, starting from the taxable years following the one in course at 31 December 2016) for an amount equal to 5% of the received dividend amount. However, if the recipient is an entity that applies the International Accounting Standards (IAS/IFRS) provided or by Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, dividends arising from shares and similar instruments that are accounted for in the financial statements as "held for trading" would be fully included in the recipient's total taxable income. A tax credit may be provided for taxation levied abroad according to specific rules and within certain limits provided for by Italian tax law.

Dividends received by certain companies and commercial entities are also subject to IRAP, applicable at different rates.

According to an amendment introduced by Law No. 190 of 23 December 2014, dividends received by non-commercial public and private entities (other than companies) and trusts are excluded from taxable basis in a percentage equal to 22,26 % (previously 95%). Art. 1, paragraph 64 of Law No. 208 of 2015 provides that the above percentage will be re-determined through the issuance of a specific Decree by the Ministry of Economy and Finance. In particular, such a Decree will re-determine the above rate in order to reflect the reduced corporate income tax rate (i.e. 24% as of 1st January 2017).

(c) Tax-exempt entities

Dividends received by Italian resident entities that are exempted from IRES are subject to a 26% final substitute tax, levied by any authorized resident or non-resident depository that is a member of the centralized deposit system managed by Monte Titoli, or of foreign centralized deposit systems that participate in Monte Titoli. For these purposes, non-resident intermediaries must appoint a fiscal representative in Italy, such as banks, Italian resident broker-dealers, permanent establishments in Italy of non-resident banks and broker-dealers, or an investment management company authorized pursuant to the Italian Unified Financial Act. The above 26% final substitute tax is not applicable to entities not subject to IRES according to Art. 74, paragraph 1 of the Presidential Decree No. 917 of 1986.

Real Estate OICRs

Dividends received by Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998, as amended and supplemented, and Article 14-bis of Law No. 86 of 25 January 1994 (the "Real Estate Funds") and by

investment companies with fixed capital investing in real estate ("Real Estate SICAFs", together with the Real Estate Funds, the "Real Estate OICRs"), are not subject to any withholding or other income tax at the level of the fund. However, a withholding or a substitute tax at a rate of 26% will instead apply, in certain circumstances, to income realized by unitholders or shareholders in the event of distribution, redemption or sale of the units or shares. Subject to certain conditions, income realized by the Real Estate OICR is attributed to the investors irrespective of its actual distribution and in proportion to the percentage of ownership of units on a tax transparency basis.

Pension Funds

Dividends received by Italian resident pension funds subject to the regime provided for by article 17 of Legislative Decree No. 252 of 5 December 2005 (the "Pension Funds") are not subject to any withholding tax or substitute tax, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 20% substitute tax for the taxable year following the one in course as of 31 December 2014.

Investment Funds and SICAVs

Dividends received by Italian resident open-ended or closed-ended investment funds (different from Real Estate Funds) or a SICAVs, provided that (i) they are established in Italy and (ii) the fund or SICAV or their manager is subject to the supervision of a regulatory authority (respectively, the "**Investment Funds**" and the "**SICAVs**") are not subject to any withholding tax or substitute tax, but must be included in the management results of the Investment Funds or SICAVs. Such results will not be subject to taxation at the level of the Investment Fund or SICAV, but a withholding or a substitute tax of 26% will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

(iii) **Capital gains**

Shareholders resident in Italy for income tax purposes

(a) Individual shareholders holding the shares not in connection with a business activity

Capital gains realized by Italian-resident individuals holding the New Shares not in connection with a business activity on the sale or disposal of the shares (including rights or securities through which shares may be acquired) are subject to different tax regimes depending on whether such sale or disposal is characterized as a sale of a Qualified Shareholding or a sale of a Non-Qualified Shareholding.

Capital gains realized by Italian-resident individuals holding the New Shares not in connection with a business activity on the sale of a Qualified Shareholding are, for the 49.72% of their amount, included in the shareholder's taxable income of that fiscal year subject to IRPEF plus local tax surcharges. Capital losses in excess of capital gains, if indicated in the annual income tax return, can be carried forward and offset against the correspondent amount (49.72%) of capital gains realized in the following years, up to the fourth. Capital gains/losses realized on the sale of a Qualified Shareholding must be included in the shareholder's annual income tax return and cannot be subject neither to the *risparmio amministrato regime* nor to the *risparmio gestito* regime, which are only provided for Non-Qualified Shareholdings. Art. 1, paragraph 64 of Law No. 208 of 2015 provides that the

above 49,72% percentage will be re-determined through the issuance of a specific Decree by the Ministry of Economy and Finance. In particular, such a Decree will re-determine the above rate in order to reflect the reduced corporate income tax rate (i.e. 24% as of 1st January 2017).

Capital gains realized by Italian-resident individuals holding the New Shares not in connection with a business activity on the Sale of a Non-Qualified Shareholdings are subject to a 26% substitute tax, pursuant to one of the following optional regimes:

(i) Tax return regime (*regime della dichiarazione*): the shareholder must include in his annual income tax return the capital gains and losses realized in each fiscal year. The 26% substitute tax is applied on the overall capital gains, net of any incurred capital losses, and it is paid by the shareholder within the term provided for the payment of the income tax due for the same fiscal year. Capital losses exceeding such capital gains, if indicated in the annual income tax return, may be carried forward against similar capital gains realized in the next fiscal years up to the fourth. However, capital losses realized from 1st January 2012 up to 30 June 2014 may be set off against capital gains realized after that date with the following limitations: (i) for an amount equal to 48.08%, for capital losses realized up to 31 December 2011; and (ii) for an amount equal to 76.92%, for capital losses realized from 1 January 2012 to 30 June 2014. This regime automatically applies if the shareholder does not expressly elects for the application of one of the two following regimes;

(ii) Non-discretionary investment portfolio regime (the "*risparmio amministrato*" regime): this regime only applies if (i) the shares are deposited with Italian banks, broker-dealers or other authorized intermediaries, and (ii) an express election in writing for the application of this regime is made in advance to the intermediary by the shareholder. The intermediary with whom the shares are deposited applies and pays the 26% substitute tax with respect to each sale resulting in a capital gain, deducting a corresponding amount from the proceeds to be credited to the shareholder or using funds provided by the shareholder for this purpose. Where a sale results in a net capital loss, the intermediary is entitled to deduct such capital loss from similar capital gains subsequently realized on assets held by the shareholder on the same deposit account in the years following the fiscal year in which the loss is realized up to the fourth. However, capital losses realized from 1st January 2012 up to 30 June 2014 may be set off against capital gains realized after that date with the following limitations: (i) for an amount equal to 48.08%, for capital losses realized up to 31 December 2011; and (ii) for an amount equal to 76.92%, for capital losses realized from 1 January 2012 to 30 June 2014.; and

(iii) Discretionary investment portfolio regime (the "*risparmio gestito*" regime): this regime applies if the shares are included in a portfolio managed by a duly authorized financial intermediary. Under this regime, any income realized in connection with the shares, including accrued dividends and capital gains accrued but not yet cashed, is included in the net annual results accrued under the portfolio management. The 26% substitute tax is levied by the portfolio management company at the end of each fiscal year on the annual net accrued portfolio result. Any investment portfolio loss accrued at year-end may be carried forward and offset against net profits accrued in the fiscal years following the one in which the loss is accrued, up to the fourth. However, investment portfolio losses accrued from 1st January 2012 up to 30 June 2014 may be set off against investment portfolio profits accrued after that

date with the following limitations: (i) for an amount equal to 48.08%, for investment portfolio losses accrued up to 31 December 2011; and (ii) for an amount equal to 76.92%, for investment portfolio losses accrued from 1 January 2012 to 30 June 2014.

Under the *risparmio amministrato* and the *risparmio gestito* regimes the shareholder is not required to include the capital gains/losses in his or her annual income tax return.

(b) Individuals shareholders holding the shares in connection with a business activity, partnerships and similar entities

Capital gains realized by partnerships and similar entities or Italian-resident individuals on the sale or disposal of the New Shares, held in connection with a business activity, are included in the recipients' overall taxable income for the entire amount in the fiscal year in which they are realized and they are subject to income tax at ordinary rates. Alternatively, if the shares were held and accounted for as "fixed financial assets" (*immobilizzazioni finanziarie*) in the three-year period preceding the sale or the disposal, the individual shareholder, partnership or similar entity may elect to spread the gains realized on a straight-line basis in the fiscal year in which the gain is realized and in the following years, up to the fourth.

If the conditions indicated in the following paragraph for the partial exemption provided for capital gains realized by Italian resident companies and commercial entities were satisfied, such capital gains would only partially be subject to tax, in an amount equal to 49.72% of the capital gains, in the fiscal year in which they are realized. In this event, capital losses realized on the sale or disposal of such shares (including costs relating to such sale or disposal) would be deductible for a corresponding amount (49.72%).

Capital gains realized by certain entities are also subject to IRAP.

(c) Companies and commercial entities

Capital gains realized by Italian-resident companies, i.e. *S.p.A.'s* (joint stock companies), *società in accomandita per azioni*, *S.r.l.'s* (limited liability companies), or public and private entities (other than companies) and trusts which have as their exclusive or principal purpose the carrying out of commercial activities, are included in their taxable income and are subject to IRES according to the ordinary rules. If the shares were held and accounted for as "fixed financial assets" (*immobilizzazioni finanziarie*) in the three-year period preceding the disposal, the shareholder may elect to spread any realized gain on a straight-line basis in the fiscal year in which the gain is realized and the following years, up to the fourth. Capital losses realized on the sale or disposal of such shares (including costs relating to such sale or disposal) are deductible for their entire amount. However, the said capital losses, if relating to shareholdings acquired in the 36 months preceding the sale or disposal, are not deductible for an amount equal to the non-taxable dividends (or interim dividends) received in the 36 months preceding the sale. The said provision does not apply if the shareholder is a company that applies the International Accounting Standards (IAS/IFRS) provided or by Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

However, the said capital gains arising from the sale or disposal of the shares are tax-exempt for 95% of their amount, whereas the remaining 5% is included in the shareholders' taxable income and is subject to IRES, provided that the following conditions are met:

(i) The shareholding must be held, without interruption, from the first day of the twelfth month preceding the month in which the sale occurs (the most recently purchased shares being deemed to have been sold first);

(ii) The shareholding must be accounted for in the financial statements of the shareholder as a "fixed financial asset" (*immobilizzazione finanziaria*) in the first year of the holding period;

(iii) The participated entity has residence for tax purposes of the participated entity in a country or territory other than those referred to in the Decree of the Italian Ministry of Economy and Finance issued pursuant to Article 167, paragraph 4 of Presidential Decree No. 917 of December 22, 1986 ("TUIR"), or, alternatively, proof having been given through a tax ruling according to the terms set forth in paragraph 5, section b), of Article 167 of TUIR, that from the start of the period of ownership, the effect was not that of locating the income in countries or territories identified in the same decree referred to in Article 167, paragraph 4; and

(iv) The participated entity engages in a commercial business according to the definition set forth in Article 55 of the TUIR; however this requirement is not relevant for holdings in companies whose securities are traded on regulated markets.

With reference to the condition under lett. b) above, please note that for companies that apply the International Accounting Standards (IAS/IFRS) provided by Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, only financial instruments that are different from those accounted for in the financial statements as "held for trading" are deemed to be "financial fixed assets". For the same companies, the cost of the shares that have been held for less than the period indicated under point (i) above, but which satisfy the other condition under point (ii), is decreased for an amount equal to the portion of the dividends received during the holding period that has not been included in the taxable income.

Capital gains on the New Shares realized by certain companies and commercial entities are also subject to IRAP.

Non-commercial entities

Capital gains realized on the sale or disposal of the New Shares by Italian resident public or private non-commercial entities (other than companies) and trusts that are subject to IRES are subject to the tax regime described above in connection with capital gains realized by Italian resident individual shareholders holding the shares not in connection with a business activity.

Real Estate OICRs

Capital gains realized by Italian-resident Real Estate Funds and Real Estate SICAFs are not subject to any withholding or substitute tax at the fund level. However, a withholding or a substitute tax at a rate of 26% will instead apply, in certain circumstances, to income realized by unitholders or shareholders in the event of distribution, redemption or sale of the units or shares. Subject to certain conditions, income realized by the Real Estate OICR is attributed to the investors irrespective of its actual distribution and in proportion to the percentage of ownership of units on a tax transparency basis.

Pension Funds

Capital gains realized by Italian resident Pension Funds are not subject to any withholding tax or substitute tax, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 20% substitute tax.

Investment Funds and SICAVs

Capital gains realized by Italian resident Investment Funds and SICAVs are not subject to any withholding tax or substitute tax, but must be included in the management results of the Investment Funds or SICAVs. Such results will not be subject to taxation at the level of the Investment Fund or SICAV, but a withholding or a substitute tax of 26% will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

(iv) **Inheritance and gift tax**

Subject to certain exceptions, Italian inheritance and gift tax is generally payable on the transfer of assets and rights (including shares) as a result of death or donation (or other transfers made for no consideration).

If the deceased/donor is an Italian resident individual, the tax applies on a worldwide basis (i.e. also in respect of the assets held outside of Italy). If the deceased/donor is a non-Italian resident individual, the tax applies only in respect of assets that are considered to be located in the Italian territory pursuant to specific rules. In principle, the country of residence of the beneficiary should not be relevant for the present purposes.

The inheritance and gift tax is generally calculated, pursuant to specific criteria, on the global net value of the transferred assets and applies at the following rates:

(i) 4% in case of transfers made to the spouse or to direct descendants or ascendants, on the portion of the global net value of the transferred assets exceeding, for each beneficiary, Euro 1,000,000.00;

(ii) 6% in case of transfers made to certain other relatives (in the case of transfers to brothers or sisters, the 6% rate is applicable only to the portion of the global net value of the transferred assets exceeding, for each beneficiary, Euro 100,000.00); and

(iii) 8% in any other case.

If the transfer is made in favor of a person with severe disabilities, the tax applies on the value exceeding Euro 1,500,000.00.

(v) **Stamp duty on securities accounts and tax on securities deposited abroad**

Pursuant to Law Decree 6 December 2011, No. 201 as amended by Article 1, paragraph 581, of Law 27 December 2013, No. 147, subject to certain conditions, an stamp duty (*imposta di bollo*) may be due annually at the rate of 0.2 per cent, computed on the market value of the New Shares, if deposited with an Italian-resident financial intermediary or with an Italian permanent establishment of a foreign financial intermediary. Should the market value be absent the tax base would generally correspond to the nominal or redemption value. The stamp duty cannot exceed Euro 14,000.00 for taxpayers different from individuals.

If the New Shares are held abroad (i.e., with a foreign financial intermediary or with a foreign permanent establishment of an Italian financial intermediary) by Italian resident individuals, a

tax may be due annually at the rate of 0.2 per cent, computed on the market value of the New Shares. Should the market value be absent the tax base would generally correspond to the nominal or redemption value of the same financial instruments. Taxpayers are permitted to deduct from this tax a credit equal to any tax on wealth paid on the same New Shares in the State where they are held.

(vi) **Reporting duties**

Individuals, non-commercial entities, non-commercial partnerships (*società semplici*) and other entities deemed to be equivalent to non-commercial partnerships pursuant to Article 5 of the Italian Income Tax Code, which are considered to be Italian-resident for tax purposes, are normally required to report in their annual income tax return any investment held abroad and any foreign financial asset that they held in the course of each fiscal year, provided that these assets may give rise to income liable to tax in Italy.

The mentioned reporting duties apply not only to the direct holders of the mentioned investments and assets, but also to the relevant beneficial owners (as defined under Italian Legislative Decree of 21 November 2007, no. 231).

In case the person is not required to file the income tax return, the relevant data are reported in a specific form to be filed by the same deadline established for the filing of the income tax return.

There is no reporting duty if the total amount of the financial assets at the end of the fiscal year does not exceed Euro 15,000.00. In addition, there is no reporting duty also in case the financial assets are administered or managed by an Italian intermediary that levied the applicable withholding or substitute taxes to the income arising from the mentioned assets.

4. POLAND

4.1 Exercise of Pre-emptive Subscription Rights by Polish investors

Holders of Bank shares traded through Poland's *National Depositary of Securities* system (in Polish the *Krajowy Depozyt Papierów Wartościowych S.A.*) (the "**NDS**") registered in the securities accounts of NDS participants (the "**Polish Investors**") may exercise their Pre-emptive Subscription Rights pursuant to the following rules.

BNP Paribas Securities Services, S.A. (the "**Iberclear Participant**") shall provide Euroclear Bank SA/NV ("**Euroclear**") with information on the Capital Increase once it has been provided to it by the Bank or the Agent. This information will then be provided to the NDS, which will make it available to its participants (securities agencies and depositary entities) for subsequent distribution to Polish Investors.

On the date of the award (following the reference date for allocation of Pre-emptive Subscription Rights set down in section III.5.1.3 above), the subscription rights will be credited to the account of E.C. Nominees Limited, a subsidiary of Euroclear ("**Euroclear Nominees**"), held by the Iberclear Participant, in accordance with the balances in the account on the reference date. Euroclear (through Euroclear Nominees) will in turn charge the Pre-emptive Subscription Rights to the NDS' account held by Euroclear.

The NDS will reflect the Pre-emptive Subscription Rights in the accounts of its participants.

During the Pre-emptive Subscription Period, Polish Investors may contact the entities managing their securities accounts (securities agencies, depositary entities) to subscribe the New Shares and make the corresponding payments, or to sell their Pre-emptive Subscription Rights in the Spanish market. The Pre-emptive Subscription Rights will not be traded on the Warsaw Stock Exchange. In addition, Polish Investors will not be able to buy additional Pre-emptive Subscription Rights in the market on top of those allocated to them based on the number of Bank shares they own.

The Pre-emptive Subscription Rights will be exercised based on the subscription ratio set by the Bank. Following the end of the Pre-emptive Subscription Period, the NDS participants shall notify the NDS of the total number of rights exercised, and the New Shares acquired, and will provide the funds relating to the subscriptions placed. On receipt of this payment, the NDS will transfer the funds to Euroclear, which will transfer them to the Iberclear Participant. The Participant will in turn transfer the funds to the Bank, or the entity acting as the agent for the Bank.

On receipt of the aforementioned information, and subject to the operating instructions issued in relation to the Capital Increase, the NDS will send Euroclear an instruction with information on the total number of rights exercised and New Shares subscribed. Euroclear (through Euroclear Nominees) will, in turn, provide this information to the Iberclear Participant. The Pre-emptive Subscription Rights will be automatically extinguished at the end of the Pre-emptive Subscription Period. The New Shares will be registered with the Iberclear Central Registry once the Capital Increase has been registered with the Commercial Registry of Cantabria. On the same day that the New Shares are registered in the Iberclear Central Registry, the Iberclear Participant will make the corresponding book entry in favour of Euroclear Nominees for the quantity of New Shares corresponding to the Polish Investors who have duly exercised their Pre-emptive Subscription Rights. Euroclear will, in turn, record the New Shares in its system, charging these to the NDS account. NDS will then charge the accounts of the NDS participants, which will subsequently charge the securities accounts of the Polish Investors who subscribed the New Shares.

In accordance with this process, it should be noted that the information on exercise of the Pre-emptive Subscription Rights by Polish Investors will be sent by the NDS participants that hold the securities accounts of the Polish Investors to the NDS, which in turn will provide this information to the Iberclear Participant through Euroclear (with the intermediation of Euroclear Nominees). Therefore, as all of these entities need time to collect and transmit the information required through the chain of intermediaries, the pre-emptive subscription period for Polish Investors may differ from the Pre-emptive Subscription Period, to ensure there is sufficient time to transmit such information.

Furthermore, the transmission of the New Shares may take place later than for other shareholders and investors who hold shares of the Bank, as these procedures involve cooperation among several entities - including the NDS, Iberclear, the Iberclear Participant, Euroclear Nominees, Euroclear and the NDS participants - and as the NDS is not a direct participant in Iberclear.

Polish Investors are advised to contact the NDS participants holding their securities accounts for detailed information on the exercise of their Pre-emptive Subscription Rights, including specifically the deadline for exercise of their rights (as stipulated by each NDS participant) to

pay for the New Shares or to trade the Pre-emptive Subscription Rights in the Spanish market, and the precise dates on which they will receive the New Shares.

Polish Investors will not be able to issue orders to request Additional Shares.

4.2 Information on taxes on income from the securities withheld at source

The summary set out in this section deals solely with prospective shareholders who are resident or deemed to be resident in the Republic of Poland. The below comments do not apply to the taxation in Poland of non-resident shareholders.

Capital gains derived from the disposal of shares – Polish individuals

In accordance with Article 3, section 1 of the Polish Personal Income Tax Act, individuals, provided that they reside within the territory of the Republic of Poland (the "**Polish Individuals"**), are liable to pay tax on all of their income (revenues) regardless of the location of the source of revenues (unlimited tax obligation). A Polish Individual is any individual who: (i) has the centre of their personal or economic interests (centre of life interests) within the territory of Poland; or (ii) resides within the territory of Poland for more than 183 days in any tax year.

In the case of the disposal by a Polish Individual of property located in another country, the tax treaty between Poland and that country applies. According to Article 13, section 3 of the Treaty between Spain and Poland for the avoidance of double taxation dated November 15, 1979 ("**Treaty**"), gains from the disposal of shares, except for shares related to the operation of a permanent establishment, are taxed exclusively in the country in which the disposer of the property is resident. Thus, income from the disposal of the shares earned by Polish Individuals is taxed in Poland according to the Treaty.

Pursuant to Article 30b, section 1 of the Polish Personal Income Tax Act, income on the transfer of the ownership of shares in exchange for consideration is taxed at a flat rate of 19%. Taxable income is computed as the difference between the proceeds from the disposal of shares and tax deductible costs, including, but not limited to the expenditure relating to the acquisition of such securities. If the price of the shares, without a justified reason, significantly differs from the market value thereof, revenue from the disposal of the shares in exchange for consideration will be determined by a tax authority at a level that reflects their market value.

Such income is subject to taxation as income due, even if not actually yet received. It is not aggregated with the other income of the individual and is taxed separately.

Entities intermediating in the sale of shares by an individual (e.g. brokerage houses) are required to deliver to that person and the appropriate tax office information on the amount of income earned by that person.

The above regulations do not apply if the sale of the shares for consideration is a consequence of the conduct of any business activities, as in such case the revenues from the sale of shares should be qualified as originating from the conduct of such activities and should be settled according to general terms.

During the tax year individuals who earn income from the disposal of shares in exchange for consideration are not required to make any income tax prepayment. Neither tax nor

prepayment on the above-mentioned income is withheld by the tax remitters. However, after the end of a given tax year, which in the case of individuals is the same as the calendar year, taxpayers earning income from the disposal of shares in exchange for consideration are required to disclose such income in their annual tax return, calculate the due amount of tax and pay it to the account of the relevant tax office by 30th of April of the calendar year immediately following the year in which such income is obtained.

Dividend income derived from shares – Polish Individuals

In light of Polish tax law, income from a share in the profits of legal persons is classified either as a dividend or as income actually generated from such share, including, inter alia, income from the liquidation of a company or income from a share redemption.

Pursuant to Article 30a, section 1 point 4 of the Polish Personal Income Tax Act, dividend income and other income from a share in the profits of legal persons is not aggregated with income from any other sources, and is subject to taxation at a flat rate of 19% of the income earned.

Pursuant to Article 30a section 11 of the Polish Personal Income Tax Act, taxpayers shall indicate in annual tax return calculated amount of flat rate income tax derived from dividend obtained beyond the borders of Republic of Poland and amount of tax paid abroad for such income. According to Art. 23 of the Treaty, the amount of tax paid on dividend in Spain can be deducted from the amount of tax due in Poland.

Income derived from a disposal of shares – Polish Corporate Income Taxpayers

In accordance with Article 3, section 1 of the Polish Corporate Income Tax Act, taxpayers having their seat or a board within the territory of the Republic of Poland ("**Polish Corporate Income Taxpayers**") are liable to pay tax on all of their income, irrespective of the location of the source of revenues (unlimited tax liability). Pursuant to Article 1 of the Polish Corporate Income Tax Act, the provisions of the Polish Corporate Income Tax Act apply to legal persons and companies in the process of being incorporated. The provisions of the Polish Corporate Income Tax Act also apply to limited joint-stock partnerships having their seat or board within the territory of the Republic of Poland.

According to Article 13, section 3 of the Treaty, gains from the disposal of shares are taxed exclusively in the country in which the disposer of the property is resident. Thus, income from the disposal of shares, except for shares related to the operation of a permanent establishment, earned by Polish corporate entities is taxed in Poland.

Gains on the disposal of shares by Polish Corporate Income Taxpayers are subject to taxation based on the general rules stipulated in the Polish Corporate Income Tax Act. Taxable income is the difference between the proceeds from the disposal of shares and the tax-deductible costs, including expenditure relating to the acquisition of such shares. The income thus computed is aggregated with the other income of the Polish Corporate Income Taxpayers. The income is taxed at a rate of:

a) 19% - for taxpayers having their seat or a board within the territory of the Republic of Poland

b) 15% - for:

(i) ‘small taxpayers’ pursuant to Article 4a section 1 point 10, i.e. taxpayers whose revenue derived from sale of goods and services(including due value added tax) did not exceed in the prior tax year amount equal to 1 200 000 EUR.

(ii) taxpayers starting a business - in the tax year during which business is started.

Dividends derived from shares – Polish Corporate Income Taxpayers

As a rule, dividend income and other income from a share in the profits of non-resident companies is aggregated with the income (revenues) earned from other sources and is subject to taxation at applicable rates: general rate of 19% or rate of 15% for small taxpayers or taxpayers starting a business.

Pursuant to Article 20, section 1 of the Polish Corporate Income Tax Act, if Polish Corporate Income Taxpayers earn income (revenue) also outside of the territory of the Republic of Poland and if that income is taxable in a foreign state, that income (revenue) is combined with the income (revenue) earned in the territory of the Republic of Poland in a tax return for the tax year concerned. If this is the case, the amount equivalent to the tax paid in the foreign state is deducted from the amount of tax due on the aggregate income. However, the deducted amount must not exceed the part of the tax calculated before deduction that is proportionately associated with the income earned in the foreign state.

Pursuant to Article 20, section 3 of the Polish Corporate Income Tax Act, income (revenues) from dividends and other revenues from qualifying shares in profits of corporate entities derived by taxpayers referred to in Article 20, section 1 is tax exempt in Poland if:

(i) the dividend and other revenues from shares in the profits of corporate entities are paid by a company that pays income tax on all of its income in an EU or EEC member state, regardless of where the income has been generated;

(ii) the entity receiving income (revenues) from dividends and other revenues from shares in the profits of the corporate entities referred to in point (i) is a company which is subject to income tax and has its registered seat or management board within the territory of the Republic of Poland;

(iii) the company referred to in point (ii) holds at least a 10% direct shareholding in the share capital of the company referred to in point (i), provided a two-year period of uninterrupted holding can be demonstrated; and

(iv) the entity described in point (ii) above is not exempt from income tax on its entire income, regardless of the location of its source.

Moreover, based on Article 20 section 15 of the Polish Corporate Income Tax Act, the above exemption applies: (a) if the shares (referred to in section (iii) above) are held on the basis of an ownership title; (b) with respect to income generated from shares held on the basis of the following titles: (A) an ownership title, (B) any title other than an ownership title, provided that such income (revenues) would qualify for the exemption if the holding of such shares was not transferred.

In the case of a failure to satisfy the condition of holding shares in the required amount without interruption for two years, including after the payment of dividend, the taxpayer will

be required to make a correction to their annual tax returns for the tax years in which such exemption was enjoyed and, as a consequence, to pay outstanding taxes, if any.

The above-mentioned exemption does not apply to dividends and other income (revenues) from a share in the profits of legal persons with respect to the part of the amounts of dividend and other income (revenues) from a share in the profits of legal persons which are in any way treated as tax deductible costs or deducted from the income, taxable base or the taxes of the company paying out the dividends or such income in the state where such company is located.

Taxpayer may claim for exemption from income tax based on Article 20, section 3 of the CIT Act, but only if requirements stipulated in Article 22a, 22b and 22c of the CIT Act are satisfied.

Pursuant to Article 22a of the CIT Act, the provisions of Articles 20-22 of the CIT Act apply in accordance with the treaties on the avoidance of double taxation to which the Republic of Poland is a party.

Pursuant to Article 22b of the CIT Act, the above-referenced exemption under Article 20, section 3 of the CIT Act applies on the condition that there are legal grounds therefor under a double tax treaty or another ratified international agreement to which the Republic of Poland is a party for the tax authority to obtain tax information from a tax authority of a state other than the Republic of Poland where the taxpayer has its registered seat or where the income was generated.

Pursuant to Article 22c, section 1 of the CIT Act, Article 20, section 3 of the CIT Act does not apply if the dividend income (revenue) from dividend or other revenues from a share in the profits of legal persons is gained in connection with the execution of an agreement or any other legal transaction, or a series of connected transactions and if the principal or one of the principal objectives of which was to be granted an exemption from income tax pursuant to Article 20 , section 3 of the CIT Act, while the grant of such exemption does not exclusively result in eliminating the double taxation of such income (revenue) and the above-referenced actions are not of a real nature. For the purposes of Article 22c, section 1 of the CIT Act, an agreement or any other legal transaction is not of a real nature to the extent that it is not executed for justified economic reasons, specifically when such agreement or transaction causes transfer of shares in a company that pays dividend or a company generates revenue (income) subsequently paid as dividend or other revenue from a share in the profits of legal persons.

Entities keeping securities account are not obliged to withhold any tax on dividend derived from entities not having their registered office or management board within the territory of Republic of Poland even if the relevant payments are made to the taxpayers through those entities.

Taxation of income from the sale of pre-emptive rights

The above-mentioned rules concerning taxation of income derived from disposal of shares shall respectively apply for both individuals and legal entities to revenue earned from sale of pre-emptive rights.

Rules of applying Tax on Civil Law Transactions (transfer tax)

Pursuant to Article 1, section 1, item 1, letter a, in conjunction with Article 1, section 4 of the Polish Act on Tax on Civil Law Transactions, transfer tax applies to agreements for the sale or exchange of property rights. Such transactions are subject to taxation if, inter alia, they apply to property rights exercised abroad, the transferee has its place of residence or seat in the territory of the Republic of Poland and such civil law transaction was executed within the territory of the Republic of Poland.

As a general rule, the sale of shares in companies is treated as a sale of property rights and is therefore subject to transfer tax at the rate of 1%. Tax liability arises once the transaction is executed and it is the transferor, in the case of a purchase agreement, that is liable for paying the tax. The tax base is the market value of the property right. Taxpayers are required, without any additional requests having been made by the tax authorities, to file a tax return concerning transfer tax and to calculate and pay such tax within 14 days from the date such tax liability arises, unless the tax is collected by a tax remitter who, in the case of civil law transactions executed in the form of notarial deeds, is a notary.

Simultaneously, under Article 9, item 9 of the Polish Act on Tax on Civil Law Transactions, the sale of property rights that are brokerage financial instruments: (i) to investment companies and foreign investment companies; or (ii) through the intermediation of investment companies and foreign investment companies; or (iii) in organised trading; or (iv) outside of organised trading by investment companies and foreign investment companies, if such financial instruments had been acquired by such firms as a part of organised trading, within the meaning of the Polish Act on Trading in Financial Instruments, is exempt from tax on civil law transactions.

Gift and inheritance taxes

Pursuant to the Polish Act on Tax of Gifts and Inheritance, any Polish tax on inheritance, gifts and donations is paid by natural persons who received a title to, inter alia, property rights exercised outside the territory of Poland by right of succession, as a particular legacy, further legacy, absolute legacy, testamentary instruction, gift or a donor's instruction if, at the moment of the acquisition of these property rights, the acquirers were Polish citizens or had a permanent place of residence within the territory of the Republic of Poland.

It is the acquirer of the title to property rights who is subject to tax liability. The taxable base is the value of the property rights received after deducting the debts and charges (net value), assessed based on the condition of the property rights on the date of their receipt and based on the market prices applicable as at the date when the tax liability arose. The tax amount is computed according to the tax group to which the recipient was assigned. A relevant tax group is assigned according to the recipient's personal relationship to the person from whom the property rights were received or inherited. Inheritances and gifts are taxed at a progressive rate ranging from 3% to 20% of the taxable base, depending on the tax group to which the recipient was assigned. There are certain amounts which are exempt from tax in each group. Taxpayers are required to file, within one month from the date on which the tax liability arose, with the competent head of the tax office a tax return in the appropriate form specifying the receipt of the property rights. The tax return should be accompanied by documents

justifying the amount of the taxable base. The tax is paid within 14 days from the receipt of the decision issued by the head of the tax office assessing the amount of the tax liability.

Under Article 4a, section 1 of the Act on Tax of Gifts and Inheritance, the receipt of a title to property rights (including the Shares) by a spouse, descendant, ascendant, stepson, siblings, stepfather or stepmother is tax exempt, provided that such individuals notify the competent head of the tax office of their receipt of title to the property rights within six months from the date on which the tax liability arose, and in the case of their receipt by right of succession, within six months from the date on which the court decision on the accession to the estate becomes final and binding. In the case of a failure to meet such conditions, the receipt of a title to the property rights is subject to taxation on the terms defined for acquirers assigned to the relevant tax group.

In Boadilla del Monte, 4 July 2017

Banco Santander, S.A.
Signed:

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Francisco Javier Illescas Fernández-Bermejo