

Banco Santander, S.A.

**Special Report on the issue of contingently
convertible preferred securities in the case of
articles 414, 417 and 511 of the Restated Text
of the Companies Act**

KPMG Auditores, S.L.
6th February 2019

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Special Report on the issue of contingently convertible preferred securities under articles 414, 417 and 511 of the Restated Text of the Companies Act

To the General Shareholders' Meeting of Banco Santander, S.A.:

Dear Sirs,

In compliance with the provisions established in articles 414, 417 and 511 of the Companies Act (*Ley de Sociedades de Capital*), the Restated Text of which was approved by virtue of the Legislative Royal Decree 1/2010 of July (the "**LSC**"), by designation of the Mercantile Registrar of Cantabria, corresponding to the file number 21/2018, and pursuant to our proposal for professional services dated on 7th November 2018, we hereby issue this special report on the proposed issue of preferred securities contingently convertible into shares of Banco Santander, S.A. ("**Banco Santander**", the "**Bank**", the "**Company**" or the "**Institution**"), excluding the pre-emptive subscription right.

1. Background and purpose of our work

1.1 Background

Banco Santander is a Spanish private law company subject to the rules and regulations of banking entities operating in Spain. The Bank's shares are listed on the Continuous Market of Spanish Stock Markets, and on the markets of New York, London and Warsaw, and all of them have the same characteristics and rights.

According to the information and documentation received, the Executive Committee of Banco Santander, under the authorisation granted by the Ordinary General Shareholders' Meeting of 27th March 2015, and the subsequent replacement of faculties of the Board of Directors in its favour on the said date, on 4th February 2019 agreed to carry out an issue of contingently convertible preferred securities (henceforth the "**CCPS**" or the "**Securities**") into shares of the Bank for up to two thousand million dollars (\$2,000,000,000), with a provision for incomplete subscription, excluding the pre-emptive subscription rights and perpetual in nature (except upon conversion or early amortisation).

1.2 Purpose of our work

The purpose of our work was not to certify the issue price or conversion of the Securities. The aims of our work were the following:

- To state whether - by applying the procedures set forth established in the Technical Rule on the preparation of special reports on the Issue of Convertible Obligations under article 292 of the Restated Text of the Companies Act (replaced by article 414 LSC Act), - the Director's Report (as this term is defined below), contains the required information set out in the said Rule, which includes the explanation of the bases and forms of the conversion of the Securities.
- To issue a technical opinion on the reasonableness of data contained in the Director's Report to the issue of the securities with the exclusion of pre-emptive rights, and regarding the suitability of the conversion ratio of the Securities and of its adjustment formulas to compensate for an eventual dilution of the financial

interests of the shareholders, all the foregoing in accordance with the provisions of article 417 of the LSC.

The accounting information used in this work was obtained from the condensed interim consolidated financial statements for the six-month period ended on 30th June 2018, which were audited by PricewaterhouseCoopers Auditores S.L., which issued its audit report on 27th July 2018 in which it expressed a favourable opinion.

2. Procedures applied in our work

The procedures applied in carrying out of our work have been the following:

2.1 Obtaining and analysis of the following information:

- Appointment of KPMG Auditores, S.L. on 17th October 2018 by the Mercantile Register of Cantabria for the preparation of the said Special Report.
- Technical Standard of the special report on the Issue of Convertible Obligations under article 292 of the Restated Text of the Companies Act (replaced by article 414 LSC Act).
- Technical Standard of the special report on the pre-emptive subscription rights exclusion in the event of the article 159 of the Restated Text of the Companies Act (replaced by article 308 LSC Act).
- Resolution of the Ordinary General Shareholders' Meeting of Banco Santander held on 27th March 2015 with respect to the delegation to the Board of Directors of Banco Santander, with the express power of substitution in the Bank's Executive Committee, of the power to issue, among other things, convertible preferred securities, and to exclude the pre-emptive rights, as well as the resolution adopted by the Board of Directors on 27th March 2015 to delegate the said powers to the Executive Committee.
- Report prepared by the Executive Committee of Banco Santander explaining the bases and methods of the conversion ("**Director's Report**") together with all of its Annexes, dated 4th February 2019, which is attached to this report as Appendix I.
- Resolution of the Executive Committee, by delegation from the Board of Directors of Banco Santander on 27th March 2015, with respect to the issue of contingently convertible preferred securities, dated on 4th February 2019, which is attached in this report as Appendix II.
- Record of decisions which determines, empowered by the Executive Committee and dated on the 6th February 2019, the total amount of the nominal value issued, type of remuneration, subscription period, date of disbursement, minimum conversion price and remuneration period, included as Appendix III in this report.
- Audited condensed interim consolidated financial statements for the six-month period ended on 30th June 2018, together with the audit report.
- Information from the Bank's auditor of accounts on any eventual and significant events or factors with respect to the economic/financial situation of the Company that might have been known subsequently to the issue of its audit report on the interim consolidated financial statements.

- Information and explanations provided by the Management of the Company as regards any facts subsequent to the approval of the latest condensed interim consolidated financial statements, mainly with respect to the following aspects:
 - Evolution of contingent liabilities or important commitments as at the date of the latest audited condensed interim consolidated financial statements and the existence, if applicable, of contingent liabilities or important commitments as at the date of this report, where applicable.
 - Variations in the share capital or any important changes in terms of long-term debts or working capital that might have taken place between the date of the latest audited condensed interim consolidated financial statements and the date of our report, if applicable.
 - Situation of accounting entries of the latest audited condensed interim consolidated financial statements that were determined based on provisional, preliminary or non-definitive data.
 - The existence of changes to any accounting principle until the date hereof.
 - Relevant Facts communicated to the Spanish Securities Market Commission (CNMV) from the latest audited condensed interim consolidated financial statements and until the date of this report.
 - The existence of any facts that might significantly affect the financial statements.
 - Other aspects deemed of interest for the carrying out of our work.
- Explanations provided by the Management of the Company on the reasons given by the Executive Committee in their report, as regards the interest of the Company in justifying the proposal for the issue of contingently convertible preferred securities and entirely suppressing the pre-emptive subscription right.
- Any other information considered necessary for the carrying out of our work.

2.2 Verification of the information contained in the Director's Report. In this respect, in the carrying out of our work, we have made sure that:

- The Director's Report contains the information deemed necessary and sufficient for its interpretation and adequate understanding by those who receive it, as indicated in the Resolution of 16th June 2004 of the ICAC (Institute of Accounting and Auditing of Accounts).
- The issue price of contingently convertible preferred securities is not below their own nominal value, and that is this value is not below the nominal value of the shares into which they are to be converted.
- The Director's Report shows the reasons justifying the removal of the pre-emptive rights on the shares upon the subscription of the contingently convertible preferred securities.
- The accounting information contained in the Director's Report matches the accounting data of the Company that were used to prepare the audited condensed interim consolidated financial statements.

- The Director's Report points out that there is no significant later events that might affect the proposed investment.
- 2.3 Holding of meetings with the Management of Banco Santander and/or its financial and legal advisers for this operation, in order to obtain any clarifications on the matters raised during the carrying out of our work, and in order to gather any other information that might be useful to our work.
 - 2.4 Reading of the available minutes of General Shareholders' Meetings and of meetings of the Board of Directors and of its Executive Committee with respect to the issue of the Securities.
 - 2.5 Review of existing private shareholders' agreements in accordance with article 530 of the Companies Act.
 - 2.6 Verification of the calculations of the valuation methods used, if applicable, by the Executive Committee when determining the bases and methods of the conversion corresponding to the Securities.
 - 2.7 Analysis of the suitability of the conversion ratio and its adjustment formulas, to compensate any eventual dilution of the financial interests of the shareholders.
 - 2.8 Analysis of the evolution of the listing value of the shares of Banco Santander and calculation of the average listing value of such shares during the latest representative listing period prior to the date of this Special Report (the last quarter) and of the latest available listing price prior to such date, also considering the listing frequency and volume of the periods under analysis.
 - 2.9 Given that the conversion ratio proposed by the Executive Committee is variable, verification that the application of the formula proposed by the Executive Committee, which serves as the basis to establish the applicable conversion price, ensures that this is in no case lower than the fair value of the shares of the Entity.
 - 2.10 Verification of the reasonableness of the estimate of the theoretical value of the preemptive rights to be removed pursuant to the Director's Report, calculated with reference to the average listing price for the three-month period ended on 5th February 2019 and the latest listing price of the Company's shares prior to the date of this Special Report and to the theoretical value of the Bank as at 30th June 2018, also considering the eventual conversion of the contingently convertible preferred securities.
 - 2.11 Obtaining of a letter signed by the Management of Banco Santander in which they confirm that we have been given all necessary information for the preparation of our report, that they have informed us of all relevant hypotheses, data or information, and that there have been no events subsequent to the date of the latest audit report and until the date of issue of the Special Report, which have not been reported to us and which might have a material effect on the conclusions of our work.

3. Assessment of the conversion ratio and its adjustment formulas

The Director's Report suggests that the conversion ratio of the preferred securities contingently convertible into shares of the Bank should be variable, for which reason fluctuations in the market value of the Bank's shares would give rise to adjustments in the conversion ratio. However, a maximum limit to the number of shares to be delivered in the conversion is established.

The bases and methods of the conversion are as follows:

3.1 Events of contingent conversion:

The Securities would necessarily and entirely be converted into newly-issued ordinary shares of the Bank, in the event that the Bank or the Bank's consolidated group for regulatory purposes presents a common equity tier 1 ratio of lower than 5.125%, calculated according to Regulation (EU) 575/2013 of 26th June (CRR) or the solvency regulations applicable to the Bank at any time.

3.2 Conversion ratio:

The conversion ratio of the Securities will be variable, with the number of shares that would correspond to each holder of Securities - if the conversion occurs - being the quotient resulting from dividing the value of the securities held by the value attributed to the ordinary shares of the Bank (the "**Conversion Price**"). If applicable, fractions of share will be rounded downwards, and the bank will not pay any compensation for excess fractions. As specified in the Director's Report and according to the resolutions adopted by the Executive Committee on 4th February 2019 and record of decisions' report dated on 6th February 2019, for purposes of the conversion ratio:

- The value of the Securities will be their nominal value.
- The "**Conversion Price**" of the Bank's ordinary shares will be, if the shares were admitted to trading at that date, the highest of the following:
 - The market value on the reference date, calculated as the mean of the volume-weighted average prices of the shares of Banco Santander in the five stock-market days immediately before the reference date, calculated under the resolution of the Executive Committee of 4th February 2019.
 - The Minimum Conversion Price.
 - The nominal value of the Bank's shares at the time of issue.

Where the Minimum Conversion Price will amount to 3.090 US dollars and will be modified, where appropriate, by applying the anti-dilution adjustments determined by the Executive Committee on 4th February 2019 as given in clause 5.3 of the Terms and Conditions (Appendix 1 to the Agreement of the Executive Committee).

In case that the shares were not, at that date, admitted to trading, the Conversion Price will be the higher between the Minimum Conversion Price and the Nominal value of the shares at that date.

In accordance with the above, the Conversion Price proposed by the Executive Committee will correspond, at least, to the fair value of the shares of the Institution at the conversion date.

The closing market price per share on 5th February 2019 amounted to 4.68 US dollars and the average listing price per share for the three-month period ended on 5th February 2019 amounted to 4.72 US dollars.

The value of the own funds plus the consolidation valuation adjustments, without considering Banco Santander's minority interests, amounts to 5.83 euros per share as at 30th June 2018 according to the latest audited condensed interim consolidated financial statements of the Banco Santander, higher than the listing prices given above and higher than the proposed Minimum Conversion Price.

The conversion ratio proposed by the Executive Committee by effect of the variable conversion ratio, will not produce an economic dilution effect on the Bank's shareholders for the reasons stated below:

- The nature of conversion is contingent (non-mandatory). The Securities will only be converted in certain circumstances in which the solvency of the Bank or of the Bank's consolidated group for regulatory purposes should present a common equity Tier 1 ratio lower than 5.125%. As at 30th June 2018, according to the information of the latest audited condensed interim consolidated financial statements to the said year, the common equity Tier 1 ratio was 10.98% (being the total Phased-in capital ratio 14.47%). As at 31st December 2018, according to the information given by Banco Santander, the "common equity Tier 1 ratio" on a consolidated basis was 11.47% (being the total Phased-in capital ratio 14.99%)
- The variable conversion ratio is established based on the listing price of the Bank's share, calculated, as for specific date, as the mean of the volume-weighted average prices of the Banco Santander's shares in the five stock-market days immediately preceding the referred date. Therefore, the issue rate of the shares which, if applicable, might be issued due to the conversion corresponds at least to the market value of the Banco Santander share at the time of the conversion, so that there would be no economic dilution for the Bank's shareholders.
- Finally, the fixed conversion mechanism contains a Minimum Conversion Price that, by definition if applied, would be above the market price of the shares at the time of conversion, so the economic dilution of the shareholders in such an event would even be negative. The said Minimum Conversion Price will be adjusted, if necessary, by applying customary anti-dilution clauses in convertible security issues, without it being able to fall below the nominal value of the share at the time of conversion (currently 0.5 euros).

Considering the above, the theoretical value of the pre-emptive rights whose exercise is proposed to be eliminated would be null, as the Conversion Price is estimated in accordance with the higher value between the listing price of the shares at the time of the conversion of the securities, the Minimum Conversion Price adjusted, if applicable, by the anti-dilution mechanisms of the Director's Report and specified in the resolution of the Executive Committee, and the nominal value of the Bank's shares.

4. Relevant aspects to be considered in interpreting the results of our work

Both in interpreting what is required by articles 414, 417 and 511 of the LSC, and the opinions expressed on this report, in addition to objective factors, implicitly contain other subjective factors that imply judgement, and therefore it is not possible to guarantee that third parties necessarily agree with the interpretation and judgements expressed in this report.

The necessary information for carrying out our work has been provided to us by the Banco Santander's Management, their advisors or was obtained from public sources.

It is important to note that, according to what is stated in section 2.1., at the issuance date, the consolidated financial statements corresponding to the period ending on the 31st December 2018, were still pending to be formulated and audited. The only information related to that date contained in this report (that is, capital data contained in section 3) has been obtained from the Directors' report.

Regarding the information obtained from public sources, our work did not include the comparison of said information with external evidence. However, as far as possible, we have verified that the information is consistent with other data obtained during the course of our work.

We do not have the obligation to update our report based on events that may occur after the issue hereof. The content of this report must be understood as referred to all information received regarding events that have taken place prior to the date hereof.

We have assumed that all authorisations and registrations that might be pertinent in Spain and other jurisdictions where Banco Santander is present for the effectiveness of the transaction and which significantly affect our analysis will be obtained without any adverse effect on the objective of the transaction that we have analysed.

Finally, it is important to highlight that our work is independent in nature and therefore it does not constitute any recommendation to the Banco Santander's Management, to its shareholders or third parties with respect to the position that they should take in connection with the analysed transaction relating to the issue of contingently convertible preferred securities.

5. Conclusion

In accordance with the work performed, within the scope described in the preceding paragraphs, and subject to the significant aspects to be considered in the interpretation of the results of our work, and all the foregoing for the sole purpose of complying with the requirements set in articles 414, 417 and 511 of the Companies Act, it is our professional opinion that:

- The attached Banco Santander Director's Report regarding the proposal for the issue of contingently convertible preferred securities into shares of Banco Santander, with the exclusion of pre-emptive rights, contains the information required by the Technical Standard on the preparation of special reports regarding the issue of convertible obligations in the case of article 292 of the Restated Text of the Companies Act (replaced by article 414 of the LSC) and the data contained in the said Director's Report are reasonable, as they have been properly documented and shown, and
- The conversion ratio for the preferred securities contingently convertible into Banco Santander's shares, with the exclusion of the pre-emptive rights, and its adjustment formulas are suitable for offsetting an eventual dilution of the financial interest of the shareholders.

* * * *

This Special Report and the information contained herein have been exclusively prepared for the purposes of articles 414, 417 and 511 of the LSC, for which reason it should not be used for any other purpose.

[signature]

Fernando Maldonado
*Director General responsible
for Corporate Finance FIG and Real Estate*

KPMG Auditores, S.L.

6th February 2019

Appendix I. Director's Report of 4th February 2019

REPORT PREPARED BY THE EXECUTIVE COMMITTEE OF BANCO SANTANDER, S.A. ON THE ISSUE OF CONTINGENTLY CONVERTIBLE PREFERRED SECURITIES TO BE APPROVED BY THE EXECUTIVE COMMITTEE PURSUANT TO THE AUTHORISATION GRANTED BY THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING HELD ON 27 MARCH 2015 UNDER ITEM TEN A) OF THE AGENDA

This report is prepared in connection with the resolution to issue preferred securities contingently convertible into common shares of Banco Santander, S.A. (“**Banco Santander**”, the “**Bank**”, or the “**Company**”) for up to TWO THOUSAND MILLION EUROS (EUR 2,000,000,000) or its equivalent in any other currency (the “**CCPS**”) that will be submitted to and, if appropriate, approved by the Bank’s Executive Committee in reliance on the authorisation provided by the shareholders at the general shareholders’ meeting held on 27 March 2015, under item Ten A) of the agenda and the subsequent delegation of powers approved by the Board of Directors on the same date. This report is issued in compliance with articles 249 bis.f) of the restated text of the Companies Act (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010 of 2 July (the “**Companies Act**”), and article 3.2.t) of the Regulations of Banco Santander.

This report is issued in compliance with the requirements established in articles 286 and 414.2 (in connection with the basis and methods for the conversion of debentures and the capital increase required for that purpose) and 417.2 and 511 (as regards the exclusion of pre-emptive rights) of the Companies Act, and in resolution Ten A) adopted by the shareholders at the general shareholders’ meeting of 27 March 2015.

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

Pursuant to the provisions of article 511 of the Companies Act and resolution Ten A) adopted at the general shareholders’ meeting of 27 March 2015, this report and the report that the independent expert appointed for that purpose by the Commercial Registry of Cantabria will prepare concerning the basis and methods for conversion, the fairness of the information included in this report and the suitability of both the conversion ratio and the formulas for its

adjustment to offset a potential economic dilution for the shareholders, will be made available to the shareholders, and reported to the shareholders at the first general shareholders' meeting to be held following the resolution approving the issue of the CCPS. Likewise, in compliance with Recommendation 5 of the Code of Good Governance of Listed Companies approved by the Council of the Spanish Stock Market Commission (“CNMV”) in February 2015, the Bank will publish this report on its corporate website once the conditions of the issue of the CCPS have been established.

1. RATIONALE FOR THE ISSUE OF CCPS

In accordance with the framework of solvency and own funds defined by Regulation (EU) 575/2013 of 26 June (“CRR”) and Directive 2013/36/EU of 26 June (as transposed into national law¹, and with CRR, “CRDIV”), through which the regulatory framework known as “Basel III” was implemented in Europe, Banco Santander, as a Spanish credit institution and parent company of a consolidated group of credit institutions, is subject to, on an individual and consolidated basis, a minimum capital requirement (known as “Pillar 1”²), a specific capital requirement (known as “Pillar 2R”) and an additional requirement denominated “combined buffers requirement” (which must be met with Common Equity Tier 1 (“CET 1”), in addition to the CET 1 intended to comply with Pillar 1 and Pillar 2³). The Pillar 2 requirement (both Pillar 2R and Pillar 2G) is set by the European Central Bank ad hoc for each institution on an annual basis taking into account the outcome of the assessment and supervisory-review process (“SREP”). In the case of Banco Santander, as a result of the last SREP carried out in 2017, the European Central Bank has required the Bank to maintain,

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

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

³ Pillar 2 of capital is formed by a requirement (or Pillar 2R, for the “r” of requirement) that has currently been fully met with CET1 and in the stacking order above the requirement of Pillar 1 but before the combined buffers requirement; and a guidance or non-binding recommendation (or Pillar 2G, for the “g” of guidance).

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

from 1 January 2018: (i) a CET 1 phased-in ratio of at least 8.655%⁴ on a consolidated basis and at least 7.875% on an individual basis, and (ii) total phased-in capital ratio of at least 12.155% on a consolidated basis and at least 11,375% on an individual basis.

On 31 December 2018, the Bank's total phased-in capital ratio was 14.99% on a consolidated basis, with the Bank's CET 1 phased-in capital ratio at 11.47% on a consolidated basis⁵. These ratios comfortably exceed the regulatory capital requirements currently applicable to Banco Santander.

Notwithstanding the fact that, as indicated, the Bank currently complies comfortably with all capital requirements and has sufficient issuances of specific instruments to meet its capital requirements efficiently, it is proposed to issue new securities that qualify as AT1 for strengthening its capital ratios and maintaining adequate management margins above the capital requirements applicable to the Bank and to enable Banco Santander to at all times strengthen and preserve sound capital position of the Bank and its group in the most efficient way, seeking the appropriate balance between the cost that one or other type of instruments may imply for the institution and the computability of those instruments for the purposes of various regulatory requirements and the expectations of investors and the market.

In addition, the issue of the CCPS will facilitate the proactive and orderly management of market expectations as well as the maturities and early-redemption options of the outstanding issuances of the Bank's eligible liabilities, guaranteeing at all times efficient compliance with the solvency requirements and taking advantage, eventually, of the favorable market circumstances existing at each moment (notwithstanding the fact that the relevant junctures for the purposes of determining the suitability of the early-redemption of each issue are those

⁴ This requirement includes: the minimum Pillar 1 requirement (4.5%), the Pillar 2R requirement (1.5%), the capital conservation buffer (1.875%), the requirement deriving from its consideration as a Global Systemic Financial Institution (0.75%) and the counter-cyclical capital buffer requirement (0.03% of CET 1). On the date of this report, the requirement for (i) the capital conservation buffer is 2.5%, (ii) the requirement derived from its consideration as a Global Systemic Financial Institution is 1%, and (iii) the applicable counter-cyclical capital buffer is 0.2% of CET1.

⁵ On 30 September 2018, the Bank's total phased-in capital ratio was 14.81% on a consolidated basis, with the Bank's CET 1 phased-in capital ratio at 11.29% on a consolidated basis. These ratios comfortably exceed the regulatory capital requirements currently applicable to Banco Santander. On both dates, data calculated under the transitional provisions of IFRS 9.

existing on the date of its redemption or early maturity), which is in Banco Santander's best interest.

Likewise, the following is of note:

- (i) Similar to other issues of AT1 instrument in recent years, the proposed securities contribute to the substitution for previous issues of preferred securities that are affected by the progressive disqualification set out in article 486 of CRR. Article 486 establishes that the elements and instruments that qualify as additional tier 1 capital that were issued before 31 December 2011 and no longer meet the qualification requirements set out in articles 51 and 52 of CRR will gradually lose their corresponding qualification at 10% per year (for a period from 1 January 2014 and 31 December 2021). This gradual disqualification makes substitution for new instruments that meet the requirements desirable.
- (ii) Furthermore, this type of issues are useful for strengthening the leverage ratio. In accordance with the provisions of article 429 of CRR, the leverage ratio is calculated as the tier 1 capital divided by the total exposure of the entity, for which the AT1 instruments issues strengthen the leverage ratio by increasing its numerator.
- (iii) Moreover, since the capital instruments that qualify under CRR will be eligible for the purposes of the TLAC (Total Loss Absorbing Capacity)⁶ (and, of course, the MREL, which is the configuration that is being adopted in Europe to comply with the TLAC), the issue of the CCPS that are the subject of this report places the Bank in a favourable position for the purposes of a phase-in implementation of the TLAC requirements from 1 January 2019, until its full implementation in financial year 2022.
- (iv) Finally, on 23 March 2016, the European Commission published an important package of reforms aimed at strengthening the regulations applicable to European Banks. However, its implementation and final content are still uncertain⁷. In particular, among

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

⁷ In particular, the package would take into consideration the reform of the legislation on solvency arising from Basel III approved in 2013 and the legislation on resolution approved in 2014 and consists of: (i) a Directive proposal that would modify Directive 2013/36/EU; (ii) a Regulation proposal that would modify Regulation (EU) No. 575/2013; (iii) two Directive proposals that would modify the Directive 2014/59/EU on

the amendments to be made to CRDIV, it is established the possibility that part of the Pillar 2 requirements could be satisfied with AT1 instruments (approximately 18% of the requirement, although the competent authority reserves the right to adjust it downward or upward).

The Executive Committee further believes that, again, as happened with the contingently convertible preferred securities issues in the past by the Bank, the best way to capitalise on this interest, or "market window", is through an accelerated bookbuilding process, which allows for: (a) raising funds within a very short period of time; (b) raising such funds efficiently on the financial terms and conditions prevailing in the market, reducing the costs and risks inherent in the transaction by reducing the periods during which the placement of the securities is exposed to market volatility, and finally (c) to place the offered CCPS on market terms that are more advantageous for the Company than the terms that might be expected to be obtained if the issue were to be carried out recognising shareholders' pre-emptive rights, and with less uncertainty concerning the outcome and risk of the transaction.

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

The exclusion of the pre-emptive rights makes necessary the drafting of this report as well as a report by an independent expert appointed by the Commercial Registry, both regulated in articles 414.2 and 417.2 of the Companies Act.

resolution of credit institutions; and (iv) a Regulation proposal that would modify Regulation (EU) No. 806/2014, which regulates the Single Resolution Mechanism, and that would create homogeneous rules on debt-ranking in credit institutions in the European Union.

2. LEGAL FRAMEWORK GOVERNING PREFERRED SECURITIES

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

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

3. DESCRIPTION OF THE PLACEMENT METHOD

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

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

Once this process ends, the final terms and conditions of the issue will be set in accordance with the resolution approving the issue, if any, approved by the Executive Committee in reliance on the authorisation granted by the shareholders at the general shareholders' meeting held on 27 March 2015, under item Ten A) of the agenda, and the subsequent delegation of powers approved by the board of directors at its meeting on the same date.

Specifically, after the passing of resolution on the issue, the Executive Committee (or the person to whom it delegates such power) will, on the basis of the bookbuilding process, set the total amount of the issue, the type of remuneration, the period from which the early-

redemption of the issue may be exercised by the Bank, if appropriate, as well as the date for subscription and payment of the CCPS.

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

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

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

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

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

The purpose of the proposed issue is to raise own funds taking advantage of the current financing conditions in the market and the interest of investors in instruments such as the one the Bank intends to issue. The exclusion of pre-emptive rights makes it possible to carry out the issue through the bookbuilding process, which is the one best suited to the requirements of international capital markets, makes it possible to take advantage of possible "market windows" or suitable opportunities for financial transactions, reduces the

cost of raising funds and makes it possible to obtain the financial conditions prevailing in the market, which are more favourable for the issue than those that would be obtained if it were made with pre-emptive rights and, in general, increases the likelihood that the transaction will be successful.

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

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

Such process will allow the Company to:

- take advantage of the “market window” that, for the time being, remains open and in which the Bank intends to carry out the issue, removing the uncertainty as to whether such window would remain open for a hypothetical preferred subscription period of at least 15 days;
- facilitate the placement work of the joint lead managers as to the type and geographical location of the potential investors whom they might contact;
- take advantage of the opportunity to carry out a transaction that will allow it to improve the structure and quality of its financial liabilities and set the amount of the issue, the conversion price, and the remuneration to be paid at the end of the respective bookbuilding process or in the immediately previous days, instead of having to do so prior to the commencement of the preferred subscription period, as would be necessary if pre-emptive rights were not excluded. This should allow the Bank to optimise the conversion price and the cost of the remuneration as compared to the one that would result if it had to set it in advance (as would be required in a transaction with pre-emptive rights), in which case it would be set on the basis of market response and the listing price of the shares at the time of the accelerated bookbuilding; and

- reduce the effect of the issue on the listing price of the shares of the Company by enabling it to obtain firm subscription commitments from “professional clients” within a very short period of time, compared to the longer period of time that would be required for the issue from notice to the market of the Bank's intention to issue if pre-emptive rights would have been maintained.
- Two.- Complexity of the product and commercial restrictions under the public offer framework.

The complex nature of this type of instrument, required under CRR for its qualification as additional tier 1 capital, makes it desirable to allocate the entire issue for this disbursement among professional clients⁸ given their high degree of expertise and financial knowledge. In this sense, both the additional provision four of the Law on the Securities Markets (*Ley del Mercado de Valores*) and the additional provision one of the LOSS require, in the event of the commercialisation of this type of securities, a tranche exclusively targeted to professional clients who subscribe at least half of the issue. This is consistent with the guidelines of the Joint Committee of the European Supervisory Authorities (formed by the European Bank Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority), which recommend that financial institutions avoid the commercialisation and the subsequent disbursement of these products to retail clients, which, in the case of the Bank, are in many cases shareholders. In the same vein, the Circular of the CNMV 1/2018, of 12 March, on warnings relating to financial instruments, establishes the instruments qualifying as additional tier 1 capital (as it is the case of CCPS) are products that, due to their particular complexity, are not suitable for retail clients. These requirements are irreconcilable with an issuance of CCPS with pre-emptive rights.

Furthermore, the full placement of the CCPS among investors classified “professional clients” facilitates access to international markets, on which a large volume of funds is traded, which, when combined with Banco Santander’s quality and prestige, make it possible to —as it has been proved in the last issues of this type of instrument— secure a

⁸ As defined in point (10) of Article 4 (1) of the directive commonly known as MiFID II.

higher volume of funds on more favourable terms. Given the foregoing, it is necessary to exclude the pre-emptive rights of the current shareholders of the Bank in respect of the CCPS.

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

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

Assuming that the CCPS issue is subscribed in full, the effect on the Bank’s main solvency indicators would be as follows (*phased-in* ratios under CRR⁹):

Data in percentages (rounded by approaching)	30.09.2018	Pro forma after this issue
<i>Common Equity Tier 1</i>	11.29%	11.29%
<i>Additional Tier 1</i>	1.67%	2.01%
<i>Tier 1</i>	12.96%	13.30%
<i>Tier 2</i>	1.85%	1.85%
<i>Own funds</i>	14.81%	15.15%

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

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

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

⁹ Data calculated under the transitional provisions of IFRS 9.

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

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

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

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

- Firstly, the CCPS are "contingently" convertible securities, rather than "necessarily" convertible securities and, therefore, in the most common scenario, they will not result in either an economic or political dilution of the Bank's shareholders since conversion into shares will not take place. In this regard,

conversion is not the natural aim of the CCPS¹⁰; they would only be converted in specific circumstances in which the Santander Group's solvency is significantly impaired (the CET1 ratio calculated in accordance with CRR and other applicable regulations is below 5.125%).

- Secondly, a variable conversion ratio is established in the event of automatic conversion into shares, as a result of which, as mentioned, the shareholders will not experience any economic dilution, considering that the shares would be issued at their market value at the time of conversion (or, if the minimum conversion rate applies, at a price higher than their market value at that time), such that the notional value of the pre-emptive rights for which exclusion is proposed would be zero (or, if the minimum conversion price is applied, potentially negative).
- Third, the established conversion ratio contains a minimum conversion price, making it possible to limit the maximum political dilution that the Bank's shareholders might suffer in the event of a conversion event. That minimum conversion price will be adjusted, if necessary, by applying the anti-dilution clauses that are customary in issuing securities and will in no event be lower than the nominal value of the shares.

Considering the foregoing, the Executive Committee believes that the exclusion of the pre-emptive rights of the shareholders in the issue of the contingently convertible preferred securities to which this report refers is amply justified by reasons of corporate interest.

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

If approved by the Executive Committee in reliance on the authorisation granted by the shareholders at the ordinary general shareholders' meeting held on 27 March 2015 under item

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

Ten A) of the agenda and the subsequent delegation of powers by the Board of Directors at its meeting on the same date, the Bank will issue securities contingently convertible into newly-issued shares of Banco Santander.

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

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

One. Data of the issuer

The issuer is Banco Santander, S.A., with registered office in Santander, Spain, at Paseo de Pereda, 9 to 12, and holder of Tax Identification Number A-39000013. Its current share capital totals EUR 8,118,286,971 represented by 16,236,573,942 common shares, each with a nominal value of EUR .50, all fully paid in and carrying the same rights.

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

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

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

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

Two. Amount of the issue

The maximum amount of the issue will be TWO THOUSAND MILLION EUROS (EUR 2,000,000,000) or its equivalent in any other currency, with a provision for incomplete subscription.

The amount of the maximum amount authorised used pursuant to resolution Ten A) adopted at the Bank's ordinary general shareholders' meeting held on 27 March 2015 will depend on the final amount issued and subscribed in this issue. For illustration purposes only, if the maximum amount were issued and if it were subscribed in full¹¹, (i) the amount of the maximum amount authorised used pursuant to resolution Ten A) adopted at the Banks ordinary general shareholders meeting held on 27 March 2015 would be FIVE THOUSAND TWO HUNDRED FIFTY MILLION EUROS (EUR 5,250,000,000) and (ii) FOUR THOUSAND SEVEN HUNDRED FIFTY MILLION EUROS (EUR 4,750,000,000) would remain available for drawdown.

Three. Nature

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

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

Four. Nominal value, issue price and form of representation

The issue price of the CCPS will be at par, i.e., at 100% of their nominal value. The nominal value of each CCPS will be, at least, ONE HUNDRED THOUSAND EUROS (EUR 100,000) or its equivalent in any other currency, which is an amount higher than the nominal value of the shares of the Company (EUR 0.50).

¹¹ On April and September 2017 and on March 2018, issues of contingently convertible securities were made and charged to this delegation for an amount of EUR 750,000,000, EUR 1,000,000 and EUR 1,500,000, respectively. Thus EUR 6,750,000,000 have remained available for drawdown.

Accordingly, the maximum number of CCPS issued will be twenty thousand (20,000), with an express provision established for any event involving a less than full subscription; all such CCPS will belong to a single series and will be governed by the same terms and conditions, thereby conferring the same rights upon their holders.

The CCPS will be issued in bearer form, which may be multiple (in the form of a Global Certificate).

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

The CCPS will have an annual, non-cumulative remuneration (i) of not more than 8% of their nominal value for the first five years from the Closing Date and (ii) following that period, at the rate resulting from the five-year mid-swap rate applicable (calculated in the manner and on the dates established by the Executive Committee) plus a margin that may not exceed 563 basis points (the “**Remuneration**”). The final percentage of the initial remuneration rate to be applied, and of the margin, will be established once the accelerated bookbuilding process has finalised.

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

Six. Subscription and disbursement of the CCPS

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

The CCPS will be subscribed by a limited number of professional clients¹² or, failing this, by the joint lead managers, and will be paid for on the Closing Date, which will be determined by the Executive Committee or by the person or persons to whom the Executive Committee delegates the respective powers.

¹² As defined in point (10) of Article 4 (1) of the directive commonly known as MiFID II.

Seven. Maturity date and early redemption

The CCPS are perpetual securities with no maturity date.

Notwithstanding the foregoing, on the fifth, seventh or tenth anniversary of the Closing Date (or any other date established by the Executive Committee or by the person or persons to whom the Executive Committee delegates the respective powers) and, from that time on, on each date of payment of the Remuneration, and subject to the prior authorisation of the appropriate authorities, the CCPS may be redeemed early at the behest of the Bank pursuant to the terms and conditions that may ultimately be approved by the Executive Committee. Furthermore, at any time during the life of the issue, under certain circumstances (mainly relating to a change in tax-related or regulatory circumstances), the Bank may also redeem the CCPS pursuant to the terms established by the Executive Committee.

Eight. Basis and methods for conversion

The basis and methods for conversion, which comply with the corresponding provisions of the resolution on the delegation of authority adopted by the shareholders at the general shareholders' meeting on 27 March 2017, are the following:

Events of contingent conversion

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

Conversion ratio

The conversion ratio of the CCPS will be variable.

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

For purposes of the conversion ratio:

- The value of the CCPS will be their nominal value; and

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

Where:

- “**Minimum Conversion Price**” is an amount denominated in euros or its equivalent in any other currency that results from applying the percentage set by the Executive Committee in the resolution approving the issue between 50% and 75 % to the listing price (converted into, as the case may be, into the applicable currency) for one day or the mean of several days’ listing prices of the Bank’s shares, which will also be established by the Executive Committee.

The Minimum Conversion Price will be modified, if appropriate, by applying the anti-dilution adjustments established by the Executive Committee.

- “**Market Value**” means, for any given date, the listing price on a single day or the mean of several days’ listing prices of the shares of Banco Santander as determined by the Executive Committee.

Nine. Guarantees

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

Ten. Order of priority

The CCPS will rank, by order of priority, junior to all other ordinary creditors and subordinated creditors of the Bank, except for those that rank *pari passu* with the CCPS pursuant to Additional Provision 14, Section 3 of Law 11/2015 of 25 June, on recovery and resolution of credit entities and investment services companies (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), or any rule replacing such law, and except for those that by law or by their terms, and to the extent permitted by Spanish law, rank junior to the CCPS.

Eleven. Capital increase

The Executive Committee, acting pursuant to the powers delegated to it by the Board of Directors in connection with the issue of convertible or exchangeable securities approved by the shareholders at the ordinary general shareholders' meeting of 27 March 2015 under item Ten A) of the agenda, and of the delegation of powers to establish the amount of the share capital as delegated by the shareholders at the ordinary general shareholders' meeting of Banco Santander of March 23, 2018, under item Seven of the agenda, will therefore approve the capital increase necessary to accommodate for the potential conversion of the CCPS.

Twelve. Admission to listing

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

Thirteen. Other terms

The terms for the issue of the CCPS shall be governed by the provisions of the Companies Act, the bylaws of Banco Santander and the resolution adopted by the shareholders at the general shareholders' meeting held on 27 March 2015, under item Ten A) of the agenda and, within the limits established therein, by the terms and conditions that may be established by the Executive Committee in the resolution approving the issue.

Fourteen. Independent expert report

On 15 October 2018, the Executive Committee agreed to submit a request to the Commercial Registry of Cantabria seeking the designation of an independent expert to issue the mandatory report (pursuant to articles 414, 417 and 511 of the Companies Act) on the basis and methods for conversion of the CCPS, on the fairness of the data set forth in this report and on the suitability of the conversion ratio and its adjustment formulas to offset a possible economic dilution of the shareholders, and has authorised certain persons to fully implement such resolution.

In response to the request the Commercial Registry designated KPMG Auditores, S.L. as independent expert, to which the Bank will submit this report and such other information that the auditor deems appropriate in order to issue its report for the purposes indicated in articles 414, 417 and 511 of the Companies Act, along with the audit reports of the individual annual accounts of Banco Santander and of the consolidated annual accounts of Banco Santander and its subsidiaries for the year ended on 31 December 2017.

Fifteen. Subsequent events

There are no events that are significant for Banco Santander subsequent to 31 December 2017 other than those for which the Bank has given notice after such date to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) as significant events in compliance with the provisions of article 17 of Regulation (EC) 596/2014 and article 228 of the Law on the Securities Markets, or which are included in the periodic public information communicated to that Committee.

* * *

Madrid, 4 February 2019

Appendix II. Agreement of the Executive Committee of 4th February
2019

JAIME PÉREZ RENOVALES, GENERAL SECRETARY AND SECRETARY OF THE BOARD OF DIRECTORS AND OF THE EXECUTIVE COMMITTEE OF BANCO SANTANDER, S.A.

I HEREBY CERTIFY: That in accordance with the minutes of the meeting held by the Executive Committee of the Bank in Boadilla del Monte (Madrid), Ciudad Grupo Santander, Avenida de Cantabria, s/n, on 4 February 2019, which was convened by means of a meetings calendar previously communicated and passed by the Executive Committee, but without a previously set agenda since it is not inherent to its functioning, and which was attended by all of its eight members as well as the Secretary, and which minutes were unanimously approved at the end of such meeting, the following resolution, among others, and also unanimously, was passed with the following wording:

“Resolution for the issue of contingently convertible preferred securities for an amount of up to two thousand million U.S. dollars (\$ 2,000,000,000)

Having considered the report approved by the executive committee in the meeting of today, prepared for purposes of articles 414.2, 417.2 and 511 of the Companies Act, it is resolved the issue of preferred securities (“CCPS”) contingently convertible into shares of newly issued shares of Banco Santander, S.A. (“**Banco Santander**”, the “**Bank**” or the “**Company**” and the “**Shares**”, respectively) under the authorization granted to the board of directors by the general shareholders meeting held on March 27, 2015 under resolution Ten A) of the agenda and the delegation of faculties in favor of the executive committee approved by the board of directors on the same date.

In accordance with international practice, it is resolved that the CCPS will be placed through a bookbuilding process with the purpose of obtaining indication of interests from the investors. As a result of this process, the final Terms and Conditions (as this term is defined below) will be determined, including the final amount of the issue, the distribution of the securities, and the date of subscription and payment.

Once the process is finalized and the final Terms and Conditions determined, the Company and Credit Suisse, Crédit Agricole CIB, HSBC, Deutsche Bank, and Banco Santander, S.A., as placement entity (the “**Joint Lead Managers**”) will execute a Subscription Agreement,

subject to English law, under which the Bank will undertake to take all measures necessary for the effective issue of the CCPS and the Joint Lead Managers will provide investors for the CCPS and, otherwise, to subscribe them themselves (with the exception of Banco Santander). The above notwithstanding, the attorneys designated under section (T) below will be entitled to appoint additionally or alternatively other entities to act as Joint Lead Managers of the issue and sign the Subscription Agreement.

Likewise, the Bank will execute a fiscal and paying agency agreement with The Bank of New York Mellon, London Branch, subject to English law. The attorneys designated under section (T) below will be entitled to appoint additionally or alternatively other agents than the one mentioned above to play the role of agents.

Annex 1 hereto includes the preliminary terms and conditions of the CCPS relating to this resolution (the “**Terms and Conditions**”), the main terms of which are described below and which will be finalized once the book-building process is completed.

(A) Issuer

The issuer is Banco Santander, S.A., with registered office in Santander, Spain, at Paseo de Pereda, 9 to 12, and holder of Tax Identification Number A-39000013. Its current share capital totals EUR 8,118,286,971, represented by 16,236,573,942 common shares, each with a nominal value of EUR 0.50, all fully paid in and carrying the same rights.

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

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

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

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

(B) Amount of the issue

The maximum amount of the issue will be TWO THOUSAND MILLION U.S. DOLLARS (\$ 2,000,000,000). Any of the attorneys designed in section (T) of this resolution may, individually, set up the final amount of the issue considering the result of the book-building process.

It is expressly foreseen that the issue may be subscribed in part. Accordingly, the final amount of the issue will be that corresponding to the CCPS effectively subscribed for and paid up, and the rest will remain without effect.

If this issue were subscribed in full, (i) the amount of the maximum amount authorised used pursuant to resolution Ten A) adopted at the Bank's ordinary general shareholders meeting held on 27 March 2015 would be FOUR THOUSAND NINE HUNDRED NINETY-FIVE MILLION FOUR HUNDRED THOUSAND EUROS (EUR 4,995,400,000) and (ii) FIVE THOUSAND FOUR MILLION SIX HUNDRED THOUSAND EUROS (EUR 5,004,600,000) would remain available for drawdown. For these purposes, it has been taken as the reference exchange rate the euro / U.S. dollar exchange rate of the 1 February 2019 that appeared reflected on the relevant page of Reuters, which amounted to 0.8727 U.S. dollars per euro.

(C) Nature

The CCPS are securities that are perpetual in nature (absent conversion or early redemption as set forth in this resolution and in the Terms and Conditions, and in the case of early redemption, under the procedure provided for in articles 77 and 78 of CRR -as defined below- and complementary regulations) and, therefore, without due date, and contingently convertible.

The conditions for the computation of this type of securities are governed (i) by articles 51 through 55 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, on the prudential requirements for credit institutions and investment firms ("**CRR**") and (ii), as to their tax regime, by the first additional provision of Law 10/2014 of 26 June on ordination, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión solvencia de entidades de crédito*) (the "**LOSS**").

(D) Nominal value, issue price and form of representation

The issue price of the CCPS will be at par, i.e., at 100% of their nominal value. The nominal value of each CCPS will be TWO HUNDRED THOUSAND U.S. DOLLARS (\$ 200,000).

Accordingly, the maximum number of CCPS issued will be ten thousand (10,000), with an express provision established for any event involving a less than full subscription; all such CCPS will belong to a single series and will be governed by the same terms and conditions, thereby conferring the same rights upon their holders.

The CCPS will be issued in bearer form, which may be multiple (in the form of a Global Certificate).

(E) Subscription and payment

The issue of the CCPS will not be a public offer for the subscription of securities in accordance with articles 35.2.a) and d) of the consolidated text of the Law on the Securities Market, approved by Royal Legislative Decree 4/2015, of October 23, and 38.1.a) and d) of Royal Decree 1310/2005. Likewise, for the purposes of Articles 16.3 and 24.2 of Directive 2014/65 and Articles 9 and 10 of the Delegated Directive of the Commission 2017/593 it is stated that the Bank and the Joint Lead Managers will design and establish as target market for the CCPS “professional clients” and “eligible counterparties” only, as these terms are defined in the abovementioned Directive.

The date (or period) for the subscription and the payment date of the CCPS (the “**Closing Date**”) will be determined by any of the attorneys appointed under Section (T) below.

(F) Exclusion of shareholders pre-emption rights

Considering the requirements of the corporate interest and the reasons given by the Bank’s executive commission in the report approved today, the pre-emptive rights of the shareholders are excluded in their entirety.

Pursuant to the provisions of article 511 of the Companies Act and of resolution Tenth A) of the shareholders passed at the general shareholders' meeting held on 27 March 2015, the aforementioned report, prepared by the executive committee in compliance with the requirements of articles 417.2 (as regards the exclusion of pre-emptive rights) and 414.2 (in

connection with the basis for and methods of conversion of debentures) of the Companies Act, together with the report of an independent expert to be received pursuant to the provisions of articles 417.2 and 414.2 of the Companies Act, shall be made available to the shareholders and reported to the first general shareholders' meeting of the Bank to be held following the adoption of this resolution approving the issue. Likewise, in compliance with Recommendation 5 of the Code of Good Governance of Listed Companies approved by the CNMV in February 2015, the Bank will publish the directors' report on its corporate website once the conditions of the issue of the CCPS have been established.

(G) Distributions

(G.1) Distribution Rate

Subject on each payment date to the events described in section (G.2) below, the CCPS shall accrue non-cumulative distributions, payable quarterly in arrears (the "**Remuneration**"), calculated at a nominal interest rate per annum:

- (i) consisting of a percentage applied to the nominal value of the CCPS which shall in no event exceed 8% from the Closing Date (inclusive) through the fifth anniversary thereof (exclusive) (the "**Initial Remuneration Rate**"); and
- (ii) from then on, for each five-year period, it shall consist of adding to the margin ultimately determined and which shall in no event exceed 563 basis points (the "**Margin**"), the five-year mid-swap rate applicable, calculated as provided in the Terms and Conditions.

Any of the attorneys appointed in section (T) of this Resolution is authorised to set up the Initial Remuneration Rate and the Margin, acting individually and based on the outcome of the accelerated book-building of the CCPS, at the attorney's discretion.

(G.2) Payment of the Remuneration

1 Events of cancellation

The holders of the CCPS shall not receive the Remuneration in the following events:

1.1 Distributable items: to the extent that payment of the Remuneration, together with the remuneration intended to be paid during the current financial year on any other *Pari Passu* Securities and CET1 capital securities, exceeds the Distributable Items.

“**Distributable Items**” means the profits and reserves of the Bank available at each time for the payment of the Remuneration in accordance with applicable laws and regulations. This concept is currently defined in article 4(l)(128) of the CRR.

The term “**Pari Passu Securities**” means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 of 25 May on investment coefficients, own funds and information obligations of financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) and/or Royal Decree-law 14/2013 of 29 November, on urgent measures to adapt the Spanish system to EU rules on supervision and solvency of financial institutions (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) and/or Law 10/2014 and/or under the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the CCPS.

1.2 Central European Bank requirement: even if the Distributable Items are sufficient as provided in 1.1 above, if the Central European Bank or the Single Resolution Board (or the appropriate authority) requires that payment of the Remuneration be cancelled, in accordance with the applicable regulations on solvency or resolution.

Likewise, in the event that payment of the remuneration constitutes a breach of any regulatory restriction or prohibition on payments in connection with additional tier 1 capital instruments under applicable banking regulations (including, without limitation, the restrictions arising from a breach of the combined buffer requirement and the consequent calculation of the maximum distributable amount in accordance with article 48 of Law 10/2014, and article 141

of Directive 2013/36/EU of the European Parliament and the Council of June 26 and related regulations).

1.3 Cancellation in the Bank's discretion: pursuant to the provisions of sub-section 1.1).(iii) of article 52 of the CRR, the Bank may, in its sole discretion, decide to cancel payment of the Remuneration (in whole or in part) whenever it deems necessary.

In the event that the limitations established in 1.1, 1.2 and 1.3 apply, the consequences described in section (G.3) below shall occur.

2 Events of partial receipt

In the event that the limitations established in paragraphs 1.1, 1.2 and 1.3 above apply in part, the Bank may declare a partial payment of the Remuneration.

(G.3) General

(i) If the Remuneration is cancelled on a given payment date owing to any of the events described in section (G.2) above, the holders of CCPS shall lose their right to receive the Remuneration or the unpaid portion thereof, as the case may be, and the Bank shall be under no obligation to pay the Remuneration for that period, the unpaid portion, or interest thereon, even if the Remuneration is paid on subsequent payment dates.

(ii) The cancellation of the Remuneration shall under no circumstances constitute an event of default of the terms and conditions of the issue, nor will it be considered a failure to perform obligations for purposes of determining the Bank's insolvency status or failure to meet its payment obligations, pursuant to the provisions of Law 22/2003 of 9 July, on Insolvency (*Ley 22/2003, de 9 de Julio, Concursal*).

(G.4) Dates, place and procedure for payment of the Remuneration

The calculation of the amount of Remuneration, the accrual period thereof, the dates for payment thereof, where appropriate, and the form and procedure for payment are set forth in clause 3 of the Terms and Conditions.

(H) Basis for and methods of conversion

(H.1) Conversion ratio

The conversion ratio of the CCPS will be variable, and a maximum limit shall be established on the number of Shares to be delivered upon conversion.

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

For purposes of the conversion ratio:

- The value of the CCPS will be their nominal value; and
- The Conversion Price will be, if the Shares are then admitted to trading, the highest from among:
 - (a) The Market Value on the Reference Date of a single common share of the Bank;
 - (b) the Minimum Conversion Price; and
 - (c) the nominal value of the Shares at the time of conversion (converted into U.S. dollars at the Prevailing Rate), such that the provisions of Article 415 of the Companies Law are in all cases satisfied.

Where:

- "**Minimum Conversion Price**" will be an amount in euros equivalent to, approximately, 66% of the listing price of the Shares at the close of the market on the day before the final terms and conditions of the issue are set, converted into U.S. dollars at the Prevailing Rate.

The Minimum Conversion Price will be modified, if appropriate, by applying the anti-dilution adjustments referred to in Section (I) below.

- **“Market Value on the Reference Date”** means, for any given date and in respect of one Share, the mean of the volume weighted average price of the Shares on the five trading days immediately preceding such date, calculated as provided in clause 1 of the Terms and Conditions and converted into U.S. dollars at the Prevailing Rate.
 - **“Prevailing Rate”** means, for a given day, the euro / U.S. dollar exchange rate at 12:00 hours in London that appears on the page relevant page of Bloomberg, Reuters or other provider, chosen by the Issue, on that particular date, and if such day cannot be determined, it will be the exchange rate that appears at 12:00 hours in London on the day immediately preceding on which it can be determined, or if the exchange rate could not be determined, it will be determined by an independent expert in good faith.
- If the Shares are not admitted to trading as of such date, the Conversion Price shall be the greater of the Minimum Conversion Price and the nominal value of the Shares as of such date (converted into U.S. dollars at the Prevailing Rate).
 - For the sake of clarity, no Shares will be issued at a price below their par value expressed in euro.

(H.2) Conversion events

The CCPS shall mandatorily be converted into Shares in their entirety if the Bank or the Bank’s consolidated group has a common equity Tier 1 ratio, calculated in accordance with the CRR or the regulations governing own funds that may be applicable to the Bank at any time, of less than 5.125%.

(H.3) Conversion procedure

If an event of conversion occurs, the CCPS shall be converted into Shares following the procedure established in clause 5 of the Terms and Conditions.

(I) Anti-dilution clause

As is customary for this type of transactions, both the Minimum Conversion Price and the conversion ratio derived therefrom shall be subject to the anti-dilution mechanisms established in clause 5.3 of the Terms and Conditions.

Such anti-dilution mechanisms take into account the basis of and methods for conversion established above.

(J) Pre-emptive rights

The holders of the CCPS will not have pre-emptive rights in the issues of securities that the Bank may approve in the future.

(K) Political Rights

The CCPS will have no political rights.

(L) Rank

Unless previously converted into shares pursuant to clause 5 of the Terms and Conditions, the payment obligations of the Bank under the CCPS on account of the nominal value or otherwise of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank and, in accordance with Additional Provision 14.3° of Law 11/2015, of 18 June, on recovery and resolution of credit entities and investment services companies, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank for so long as the obligations of the Bank in respect of the CCPS constitute an Additional Tier 1 Instrument, rank:

- (a) *pari passu* among themselves and with (i) all other obligations in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank's obligations under Additional Tier 1 Instruments;
- (b) junior to (i) any unsubordinated obligations of the Bank, (ii) any subordinated obligations (*créditos subordinados*) of the Bank which become subordinated pursuant to Article 92.1° of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Bank's obligations under Additional Tier 1 Instruments; and

(c) senior to (i) any claims for the liquidation amount of the shares and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under Additional Tier 1 Instruments.

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation (*crédito subordinado*) of the Bank according to Article 92.2° of the Insolvency Law, ranking as an additional tier 1 instrument (*instrumentos de capital adicional de nivel 1*) under Additional Provision 14.3°(c) of Law 11/2015.

(M) Early redemption

(M.1) Redemption price

In the event of redemption, each CCPS gives the holder thereof the right to receive a redemption price that will consist of the nominal value of the CCPS plus an amount equal to the Remuneration accrued and unpaid through the date set for early redemption, and that has not been cancelled in accordance with section (G.2).1 above (the "**Redemption Price**").

(M.2) Date, place and procedure for redemption

The CCPS are issued for an indefinite period. However, they may be redeemed in their entirety (and not in part) at the option of the Bank, on any of the dates for payment of Remuneration, having elapsed a minimum period of five years since the Closing Date and under the procedure provided for in articles 77 and 78 of CRR.

In addition, pursuant to the provisions of clause 6 of the Terms and Conditions, even if the referred minimum period for early redemption at the option of the Bank has not elapsed since the Closing Date, the Bank may at any time proceed to the early redemption of the issue in the event that there is a change in the tax regime of the CCPS or if the CCPS are no longer eligible as tier 1 capital under the procedure provided for in articles 77 and 78 of CRR.

The authorisation of the holders of the CCPS is not required for the redemption thereof.

(M.3) Acquisition by entities of the Santander Group

The Issuer or any company of its group may partial or full repurchase the CCPS at any price on the market or in any other way, in accordance with applicable laws and restrictions and limitations deriving from the same.

(N) Payments on liquidation

In the event of liquidation of the Bank, the holders of CCPS will be entitled to receive out of the assets of the Bank available for distribution to the holders of Additional Tier 1 Instruments, a liquidation payment for each CCPS equal to the nominal value thereof plus an amount equal to the accrued and unpaid Remuneration (that has not been cancelled in accordance with section (G.2).1 above) for the then current remuneration period and through the date of the liquidation payment.

The holders of the CCPS shall receive such amounts prior to the distribution of assets among ordinary shareholders or among the holders of any other kind of securities of the Bank ranking, as to participation in its assets, behind the CCPS.

(O) Security

The CCPS shall in all cases be secured by the general credit of Banco Santander in accordance with the order of priority described under (L) above, but shall have no additional security.

(P) Applicable law

The CCPS that are covered by this resolution shall be governed by Spanish law.

(Q) Capital increase

In reliance on the delegation of powers relating to the issuance of convertible securities approved by the shareholders at the ordinary general shareholders' meeting of Banco Santander of 27 March 2015, under item Ten A) of the agenda, the delegation to approve the increase in share capital granted by the shareholders at the ordinary general shareholders' meeting of Banco Santander of 23 March 2018 under item Seven of its agenda and the respective delegations of powers by the board of directors in favour of this executive committee, and in accordance with the provisions of article 414 of the Companies Act, it is

hereby resolved to increase the share capital by the maximum amount required to accommodate the conversion of the CCPS, should it take place, express provision being made for the possibility of an incomplete subscription.

Such capital increase shall be implemented on each occasion that may be necessary to accommodate the conversion of the CCPS, by means of the issue of new ordinary shares with the same nominal value and with the same content as to rights as the ordinary shares outstanding on the date or dates of implementation of the respective resolution approving the increase. Each time that this resolution is implemented as aforesaid, the article of the bylaws relating to capital shall be amended accordingly. The number of Shares to be issued and the amount of the capital increase will be determined in accordance with the provisions of section (H.1) above, and subject to the anti-dilution adjustments provided in section (I).

Pursuant to the provisions of article 304.2 of the Companies Act, the shareholders of the Bank shall have no pre-emptive rights in the capital increase or increases resulting from the contingent conversion of the CCPS.

It is impossible at this time to determine the amount of share capital that would be necessary to accommodate the contingent conversion of the CCPS, given that the conversion ratio thereof is variable and is subject to the possible anti-dilution adjustments. However, once the Minimum Conversion Price has been determined, and subject to possible anti-dilution adjustments, the maximum amount of the increase that might be required to accommodate the conversion of the CCPS, may be determined as the quotient (rounded off by default, as the case may be) resulting from dividing the total nominal amount of the issue of CCPS by the Minimum Conversion Price (notwithstanding the anti-dilution adjustments that may be applicable).

It is hereby resolved to carry out such formalities and actions as may be necessary and to file such documents as may be required with the appropriate bodies of the Stock Exchanges where the shares of Banco Santander are listed on the implementation date or dates of the respective resolution of increase, for admission to listing of the new Shares issued as a result of the capital increase resolved to be made. This executive committee and the representatives appointed in section (T) of this resolution are hereby authorised, following implementation of this resolution, such that any of them may make the respective requests, prepare and submit

all appropriate documents on such terms as s/he deems appropriate and to take any actions as may be necessary for such purpose.

(R) Admission to listing

It is hereby resolved to make application for trading of the CCPS on the Global Exchange Market of the Irish Stock Exchange. Notwithstanding the foregoing, the Bank may make application for listing on any market, official or unofficial, regulated or not, organised or not, domestic or foreign, during the life of the CCPS, to supplement or replace trading on the Global Exchange Market of the Irish Stock Exchange.

(S) Terms and Conditions

Annex 1 to this resolution contains the original version of the Terms and Conditions in English, and which will be included in the preliminary offering circular as well as the translation thereof into Spanish. In the event of discrepancy between both versions (or between such versions and the resolution of issuance) the original version of the Terms and Conditions in English will prevail. Once the accelerated bookbuilding process is completed, the information pending on the Terms and Conditions will be determined for inclusion thereof in the final offering circular.

(T) Grant of powers

Without prejudice to the specific delegations of powers included in the preceding subsections, it is resolved to authorise any member of the board of directors of the Bank, Mr. José García Cantera, Mr. José Antonio Soler Ramos, Mr. Antonio Torío Martín, Mrs. Silvana Leticia Borgatti Casale, Mr. Óscar García Maceiras, Mr. Francisco Javier Illescas Fernández-Bermejo and Mr. José María Ciruelos Lozano, as fully as required by Law, such that any one of them, indistinctly, by him or herself, may implement this resolution, with authority to do the following, without limitation:

- (i) Determine or, if appropriate, modify the date or dates of commencement of the accelerated bookbuilding and of the launching of the issue, and even to decide not to implement the resolution approving the issue in the event that market conditions or other relevant considerations in their opinion make it advisable, and report such decision, if any, to the first meeting of the executive committee to be held.

- (ii) Determine or, if appropriate, modify, taking into account, in their discretion, the outcome of the bookbuilding process and the placement of the CCPS made by the Joint Lead Managers, the final Terms and Conditions of the issue, with authority to set the final nominal amount of the issue within the limit established in section (B); the Initial Remuneration Rate, the Margin, the Remuneration accrual periods; the subscription procedure; the subscription date or period; further develop the basis for and methods of conversion; determine de Minimum Conversion Price; determine the Closing Date; the full or partial subscription of the issue; and, in general, to set any condition of the issue, specifying the matters not contemplated in this resolution nor in the Terms and Conditions that may be necessary for the successful completion of the transaction, as well as to state the amount drawn with respect to the limit of the delegation made by the shareholders at the general shareholders' meeting and the amount that remains undrawn, and to make the decisions to be made by the Company pursuant to the Terms and Conditions of the issue during the entire term of the issue, and in particular: to declare, if applicable, the cancellation of the Remuneration on the CCPS, in whole or in part, if appropriate, to apply the anti-dilution mechanisms; and, if appropriate, adjust the Conversion Price of the CCPS; and determine the nominal amount of the capital increase that would be needed in the event of conversion of the CCPS. Any of the aforementioned representatives shall report to the executive committee the final Terms and Conditions of the issue at the first meeting of this body to be held following such determination.
- (iii) Once the issue is launched, and with the prior consent of all the Holders of CCPS for the situations where it is required, modify the Terms and Conditions of the issue in accordance with all they consider necessary or appropriate for accomplishing the ends of the issue and adapt it to market standards.
- (iv) Upon conversion of the CCPS: (i) implement the resolution on increasing the capital of the Company, and issue and list such Shares as may be necessary to carry out the conversion of the CCPS, and amend the article of the bylaws concerning capital, depriving of effect the part of such capital increase that was not required for the conversion into Shares, granting the public deeds and performing any acts that might

be necessary for that purpose, and if applicable (ii) make application for listing of the Shares thus issued on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Electronic Trading System (Continuous Market); as well as, if applicable, carry out all acts and formalities that might be necessary and submit all documents that are required, before the competent bodies or organisation of the foreign Stock Exchanges in which the shares of Banco Santander are listed on the date or dates of implementation of the relevant resolution of capital increase, for the admission to trading of the new Shares.

- (v) Appear before a notary public and execute the respective public deed of issue of the CCPS, as well as the notarial minutes of subscription and disbursement (*acta de suscripción y desembolso*) of the issuance and, if appropriate, the respective deeds of redemption, and request the registration of the aforementioned public deeds and of the notarial minutes of subscription and disbursement with the Mercantile Registry.
- (vi) Carry out any formality, make any request or appointment that may be necessary by law to secure the registration of the issue of the CCPS with the Mercantile Registry or with any other public or private agency or entity.
- (vii) Cure, clarify, interpret, make more precise or supplement this resolution with such deeds or documents as may be executed by way of implementation thereof and, in particular, all defects, omissions or errors of substance or form that prevent access of the resolutions and the consequences thereof to the Mercantile Registry or any other Registry.
- (viii) Negotiate, sign and execute such agreements and public or private documents and take such actions as may be required (even in those instances that might involve self-dealing or in which there might be a conflict of interest), including, without limitation, placement and/or underwriting agreements (including but not limited to the power to choose additional Joint Lead Managers or different from the ones set out in paragraph 3 of this resolution), paying agency agreements (including but not limited to the power to choose additional agents or different from the one set out in paragraph 4 of this resolution) and any other agreements that may be necessary or appropriate to launch the issuance, the offering of the CCPS, the accelerated bookbuilding, the issue,

payment and admission to listing of the securities and on the terms and conditions that may be deemed most appropriate, and appoint the institutions that are to carry out the duties described in the agreements and documents executed.

- (ix) Take any action, make any statement or carry out any proceeding, as well as draft, sign and register, assuming responsibility for the content thereof if necessary, any prospectus, memorandum, supplement, summary, offering document or document for admission to trading with or to any appropriate domestic or foreign agency or authority, including, without limitation, Euroclear, Clearstream, the Bank of Spain and any other public or private agency, entity or registry to confirm the eligibility of the CCPS as additional Tier 1 capital, the issue thereof, or for admission to trading thereof on the markets, as well as any other action that may be necessary in connection with the implementation and subsequent admission to trading of the issue of the CCPS.
- (x) Make application for listing of the CCPS on the markets provided for in this resolution and decide, and in such case, make application for trading of the CCPS on any other domestic or foreign secondary markets, official or unofficial, regulated or not, organised or not, and sign such documents and carry out such formalities as may be required for such purpose, and take any other subsequent actions that may be required for such listing.
- (xi) Draft, sign, execute and, if appropriate, certify any kind of document, request or communication (including significant events) relating to the issuance of the CCPS.
- (xii) Execute in the name of Banco Santander such public or private documents as may be necessary or appropriate for the issue of the CCPS that are covered by this resolution and, in general, carry out such formalities as may be required in any jurisdiction for the implementation of this resolution and the effective flotation of the CCPS.”

* * *

I HEREBY CERTIFY that what is not reflected does not restrict, annul or affect what has been reflected above.

Likewise, I HEREBY CERTIFY that the eight members of the Executive Committee of the Bank that attended the meeting of the Executive Committee held on 4 February 2019 were: Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr Bruce Carnegie-Brown, Mr Rodrigo Echenique Gordillo, Mr Guillermo de la Dehesa Romero, Mr José Antonio Álvarez Álvarez, Mr Ignacio Benjumea Cabeza de Vaca, Mr Ramiro Mato García-Ansorena and Ms Belén Romana García.

And, for the record, I issue the present certificate, certified by Mr José Antonio Álvarez, Vice Chairman, on 4 February 2019.

Approved by,

Vice Chairman

[signature]

ANNEX 1

TERMS AND CONDITIONS OF THE ISSUE

TERMS OF THE PREFERRED SECURITIES

The following is the text of the Conditions of the Preferred Securities (save for the paragraphs of italicised text in Condition 2).

The Preferred Securities (as defined below) are issued by Banco Santander, S.A. (the "**Bank**") by virtue of the resolutions passed by (i) the shareholders' meeting of the Bank, held on 27 March 2015, (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 27 March 2015 and (iii) the meeting of the Executive Committee (*Comisión Ejecutiva*) of the Bank, held on [•] 2019, and in accordance with the CRR (as defined below) and the First Additional Provision of Law 10/2014, of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) ("**Law 10/2014**").

The Bank will execute an *escritura pública* (the "**Public Deed**") before a Spanish notary in relation to the issue of the Preferred Securities on or before the Closing Date (as defined below). The Public Deed contains, among other information, these Conditions.

Paragraphs in italics within these Conditions are a summary of certain procedures of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**") and, together with Euroclear, the "**European Clearing Systems**") and certain other information applicable to the Preferred Securities. The European Clearing Systems may, from time to time, change their procedures.

1. DEFINITIONS

1.1 For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

"**5-year Mid-Swap Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date:

- (a) the rate for the Reset Date of the annual mid-swap rate for U.S. dollar swap transactions maturing on the last day of such Reset Period, expressed as a percentage, which appears on the Screen Page [•] under the heading "[•]" and above the caption "[•]" as of 11.00 a.m. [(New York City time)] on the Reset Determination Date; or
- (b) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

"**5-year Mid-Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. dollar interest rate swap transaction which:

- (a) has a term of [5] years commencing on the relevant Reset Date; and
- (b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to [•] the rate for deposits in U.S. dollars for a three month period offered by the principal London offices of leading swap dealers in the New York City interbank market to prime banks in the London interbank market or to the extent that an industry-accepted substitute or successor rate for such rate has been established (as determined by the Bank in its sole discretion), such substitute or successor rate [•];

"**Accounting Currency**" means EUR (€) or such other primary currency used in the presentation of the Group's accounts from time to time;

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation (*crédito subordinado*) of the Bank according to Article 92.2° of the Insolvency Law, ranking as an additional tier 1 instrument (*instrumentos de capital adicional de nivel 1*) under Additional Provision 14.3°. (c) of Law 11/2015;

"**Agency Agreement**" means the agency agreement to be dated on or about [●] 2019 relating to the Preferred Securities;

"**Agent Bank**" means The Bank of New York Mellon, London Branch and includes any successor agent bank appointed in accordance with the Agency Agreement;

"**Agents**" means the agents appointed in accordance with the Agency Agreement;

"**Applicable Banking Regulations**" means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank and/or the Group including, without limitation to the generality of the foregoing, the CRDIV, the BRRD, the SRM Regulation and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group);

"**Available Distributable Items**" means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Bank which are available, in accordance with Applicable Banking Regulations for the payment of such Distribution.

As at the date of the offering circular dated [●] 2019, article 4(1)(128) of the CRR provides as follows:

"**distributable items**" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Madrid and London;

"**BRRD**" means Directive 2014/59/EU, of 15 May, establishing the framework for the recovery and resolution of credit institutions and investment firms or such other directive as may amend or come into effect in place thereof, as implemented into Spanish law by Law 11/2015 and Royal Decree 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

"**Capital Event**" means a change in Spanish law, Applicable Banking Regulations or any change in the application or official interpretation thereof that results or is likely to result in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital;

"**Cash Dividend**" means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "Spin-Off" and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of "Dividend", but a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend;

"**CET**" means Central European Time;

"**CET1 Capital**" means at any time, the common equity tier 1 capital of the Bank or the Group, respectively, as calculated in accordance with Chapter 2 (Common Equity Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

"**CET1 ratio**" means, at any time, with respect to the Bank or the Group, as the case may be, the ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Bank or the Group, respectively, at such time divided by the Risk Weighted Assets Amount of the Bank or the Group, respectively, at such time;

"**Clearing System Preferred Securities**" means, for so long as any of the Preferred Securities is represented by a global Preferred Security held by or on behalf of a European Clearing System, any particular Liquidation Preference of the Preferred Securities shown in the records of a European Clearing System as being held by a Holder;

"**Closing Date**" means [•] 2019;

"**CNMV**" means the Spanish Market Securities Commission (*Comisión Nacional del Mercado de Valores*);

"**Common Shares**" means ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank and is credited as fully paid up;

"**Conversion Price**" means, in respect of the Trigger Event Notice Date, if the Common Shares are:

- (a) then admitted to trading on a Relevant Stock Exchange, the higher of:
 - (i) the Current Market Price of a Common Share, translated into U.S. dollars at the Prevailing Rate;
 - (ii) the Floor Price; and
 - (iii) the nominal value of a Common Share at the time of conversion (being €0.50 on the Closing Date) translated into U.S. dollars at the Prevailing Rate,in each case on the Trigger Event Notice Date; or
- (b) not then admitted to trading on a Relevant Stock Exchange, the higher of (ii) and (iii) above;

For avoidance of doubt, the translation into U.S. dollars at the Prevailing Rate described above shall in no circumstances imply that any Common Share will be issued at a price of less than its nominal value expressed in euro.

"**Conversion Settlement Date**" means the date on which the relevant Common Shares are to be delivered following a Trigger Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations may require) the Trigger Event Notice Date and notice of the expected Conversion Settlement Date and of the Conversion Price shall be given to Holders in accordance with Condition 11 not more than 10 Business Days following the Trigger Event Notice Date;

"**Conversion Shares**" has the meaning given in Condition 5.2;

"**CRD IV**" means any or any combination of the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit

institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC or such other directive as may come into effect in place thereof;

"CRD IV Implementing Measures" means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Bank (on a standalone basis) or the Group (on a consolidated basis);

"CRR" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 or such other regulation as may come into effect in place thereof;

"Current Market Price" means, in respect of a Common Share at a particular date, the average of the daily Volume Weighted Average Price of a Common Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date (the **"Relevant Period"**) (rounded if necessary to the nearest euro cent with 0.5 cents being rounded upwards); **provided that** if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

- (c) if the Common Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement; or
- (d) if the Common Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement,

and **provided further that:**

- (i) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Common Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of first public announcement relating to such Dividend or entitlement; and
- (ii) if the Volume Weighted Average Price of a Common Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

"dealing day" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Common Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

"Delivery Notice" means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream from time to time, which contains the relevant account and related details for the delivery of any Common Shares and all relevant certifications and/or representations as may be required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a conversion of the Preferred Securities and the delivery of the Common Shares;

"Distribution" means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with Condition 3;

"Distribution Payment Date" means each of [●], [●], [●] and [●] in each year;

"Distribution Period" means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next Distribution Payment Date;

"Distribution Rate" means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 3;

"Dividend" means any dividend or distribution to Shareholders in respect of the Common Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Common Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital **provided that:**

(e) where:

- (i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Common Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Common Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or
- (ii) there shall be any issue of Common Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a

Cash Dividend of an amount equal to the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Common Shares to be issued and delivered is determined;

- (f) any issue of Common Shares falling within Conditions 5.3(a) or 5.3(b) shall be disregarded;
- (g) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Act for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Common Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Common Share (before expenses) on any one day (a "**Specified Share Day**") in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of a Common Share on the 5 dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Common Shares at some future date at a specified price or where a tender offer is made, on the 5 dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Common Share, a minimum price per Common Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Common Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of a Common Share determined as aforesaid and (ii) the number of Common Shares so purchased, redeemed or bought back;
- (h) if the Bank or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Common Shares, the provisions of paragraph ((c)) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (i) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Common Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

"**Eligible Persons**" means those Holders or persons (being duly appointed proxies or representatives of such Holders) that are entitled to attend and vote at a General Meeting of Holders, for the purposes of which no person shall be entitled to vote at any such meeting in respect of Preferred Securities held by or for the benefit, or on behalf, of the Bank or any of its subsidiaries;

"**equity share capital**" means, in relation to any entity, its issued share capital excluding any part of that capital which, in respect of dividends and capital, does not carry any right to participate beyond a specific amount in a distribution;

"**EUR**", "**€**" and "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;

"**Existing Shareholders**" has the meaning given in the definition of "Newco Scheme";

"**Extraordinary Resolution**" has the meaning given in Condition 9.2(j);

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith **provided that** (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of 5 dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Common Share, the dividend yield of a Common Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

"**First Reset Date**" means [●];

"**Floor Price**" means U.S. \$[●] per Common Share, subject to adjustment in accordance with Condition 5.3;

As at the date of this offering circular the Floor Price is equivalent to a price of €[●] per Common Share translated into U.S. dollars at an exchange ratio of €1.00 = U.S. \$[●] and rounded to 3 decimal places.

"**Further Preferred Securities**" means any securities which are contingently convertible into Common Shares of the Bank pursuant to their terms in the event that the CET1 ratio of the Bank or the Group is less than a specified percentage;

"**General Meeting of Holders**" means the general meeting of Holders convened in accordance with Condition 9;

"**Group**" means the Bank together with its consolidated Subsidiaries;

"**Holders**" means holders of the Preferred Securities;

"**Iberclear**" means the Spanish Central Securities Depository (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal*);

"**Independent Financial Adviser**" means an independent financial institution of international repute appointed by the Bank at its own expense;

"**Initial Margin**" means [•] per cent. per annum;

"**Insolvency Law**" means Law 22/2003, of 9 July, on insolvency (*Ley 22/2003, de 9 de julio, Concursal*);

"**Law 11/2015**" means Law 11/2015 of 18 June, on recovery and resolution of credit entities and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*);

"**Liquidation Distribution**" means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

"**Liquidation Preference**" means \$200,000 per Preferred Security;

"**Maximum Distributable Amount**" means any maximum distributable amount applicable to the Bank or the Group required to be calculated in accordance with (a) article 48 of Law 10/2014 and any provision implementing such article, each interpreted in light of article 141 of the CRD IV Directive and/or (b) Applicable Banking Regulations;

"**Newco Scheme**" means a scheme of arrangement or analogous proceeding (Scheme of Arrangement) which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Bank immediately prior to the Scheme of Arrangement (the Existing Shareholders) and the Bank, **provided that:**

- (j) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;
- (k) immediately after completion of the Scheme of Arrangement the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders and the Voting Rights in respect of Newco are held by Existing Shareholders in the same proportions as their respective holdings of such Voting Rights immediately prior to the Scheme of Arrangement;
- (l) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Bank;
- (m) all Subsidiaries of the Bank immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary) are Subsidiaries of the Bank (or of Newco) immediately after completion of the Scheme of Arrangement; and
- (n) immediately after completion of the Scheme of Arrangement, the Bank (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Bank immediately prior to the Scheme of Arrangement.

"**Non-Cash Dividend**" means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

"Non-Viability Loss Absorption" means the power to permanently write-down (including to zero) or convert into equity capital instruments (such as the Preferred Securities) at the point of non-viability of an institution or a group;

"Parity Securities" means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 of 25 May on investment coefficients, own funds and information obligations of financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) and/or Royal Decree-law 14/2013 of 29 November, on urgent measures to adapt the Spanish system to EU rules on supervision and solvency of financial institutions (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) and/or Law 10/2014 and/or under the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the Preferred Securities;

"Paying and Conversion Agents" means the Principal Paying Agent and any other paying and conversion agent appointed in accordance with the Agency Agreement and includes any successors thereto appointed from time to time in accordance with the Agency Agreement;

"Payment Business Day" means a (i) a TARGET Business Day and a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London and (ii) TARGET Business Day and in the case of Preferred Securities in definitive form only, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation;

"Preferred Securities" means the \$[•] [•] per cent. Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

"Prevailing Rate" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (CET) on that date as appearing on or derived from the Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (CET) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

"Principal Paying Agent" means The Bank of New York Mellon, London Branch (or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 11);

"Proceedings" has the meaning given in Condition 14;

"Qualifying Preferred Securities" means preferred securities issued by the Bank where such securities:

- (i) have terms that are not materially less favourable to the Holders, as reasonably determined by the Bank, than the terms of the Preferred Securities;
- (ii) subject to (i) above, shall (1) rank at least equal to the ranking of the Preferred Securities, (2) have the same currency, the same (or higher) Distribution Rates and the same Distribution Payment Dates as those from time to time applying to the Preferred Securities, (3) have the same redemption rights as the Preferred Securities; (4) comply with the then current requirements of Applicable Banking Regulations in relation to additional tier 1 capital; (5) preserve any existing rights under the Preferred Securities

to any accrued interest which has not been paid in respect of the period from (and including) the Distribution Payment Date last preceding the date of substitution or variation, subject to Condition 3, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Preferred Securities immediately prior to such variation or substitution; and

- (iii) are listed on a recognised stock exchange if the Preferred Securities were listed immediately prior to such variation or substitution.

"Recognised Stock Exchange" means a regulated regularly operating, recognised stock exchange or securities market in an OECD member state;

"Redemption Price" means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

"Reference Banks" means 5 leading swap dealers in the New York City interbank market as selected by the Bank;

"Reference Page" means the relevant page on Bloomberg or Reuters or such other information service provider that displays the relevant information chosen by the Issuer at its own discretion;

"Regulator" means the European Central Bank, the Bank of Spain, the Relevant Spanish Resolution Authority or such other governmental authority which assumes or performs the role of primary bank supervisory authority or the role of primary bank resolution authority in relation to the Bank and/or the Group from time to time;

"Relevant Spanish Resolution Authority" means the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*), the Single Resolution Board, the Bank of Spain, the Spanish Securities Market Commission or any other entity with the authority to exercise any of the resolutions tools and powers contained in Law 11/2015 from time to time that performs the role of primary bank resolution authority;

"Relevant Stock Exchange" means the Spanish Stock Exchanges or if at the relevant time the Common Shares are not at that time listed and admitted to trading on the Spanish Stock Exchanges, the principal stock exchange or securities market on which the Common Shares are then listed, admitted to trading or quoted or accepted for dealing;

"Reset Determination Date" means, in relation to each Reset Date, the [second U.S. Government Securities Business Day] immediately preceding such Reset Date;

"Reset Date" means the First Reset Date and every fifth anniversary thereof;

"Reset Reference Bank Rate" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the [5]-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 a.m. [(New York City time)] on the Reset Determination Date for such Reset Date. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the [5]-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, [●] per cent. per annum;

"Reset Period" means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"Risk Weighted Assets Amount" means at any time, with respect to the Bank or the Group, as the case may be, the aggregate amount (in the Accounting Currency) of the risk weighted assets of the Bank or the Group, respectively, calculated in accordance with Applicable Banking Regulations at such time;

"Royal Decree 1012/2015" means Royal Decree 1012/2015, of 6 November, by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996, of 20 December, on credit entities' deposit guarantee fund is amended (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión, y por el que se modifica el Real Decreto 2606/1996, de 20 de diciembre, sobre fondos de garantía de depósitos de entidades de crédito*);

"Scheme of Arrangement" has the meaning given in the definition of "Newco Scheme";

"Screen Page" means the display page on the relevant Reuters information service designated as the **"ICESWAP"** page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the [5]-year Mid-Swap Rate;

"Securities" means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

"Selling Agent" has the meaning given in Condition 5.10;

"Settlement Shares Depository" means a reputable independent financial institution, trust company or similar entity to be appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed to perform such functions and who will hold Common Shares in Iberclear or any of its participating entities in a designated trust or custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

"Share Currency" means euro or such other currency in which the Common Shares are quoted or dealt in on the Relevant Stock Exchange at the relevant time or for the purposes of the relevant calculation or determination;

"Shareholders" means the holders of Common Shares;

"Spain" means the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the context requires otherwise;

"Spanish Bail-in Power" means any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to (i) Law 11/2015, as amended from time to time, (ii) Royal Decree 1012/2015, as amended from time to time, (iii) the SRM Regulation, as amended from time to time, and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such institution or any other person (or suspended for a temporary period);

"Spanish Companies Act" means the consolidated text of the Spanish Companies Act (*Ley de Sociedades de Capital*) approved by Royal Decree Legislative 1/2010, of 2 July 2010;

"Spanish Stock Exchanges" means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the Automated Quotation System -Continuous Market (*Sistema de Interconexión Bursátil -Mercado Continuo (SIBE)*);

"**Specified Date**" has the meanings given in Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h) as applicable;

"**Spin-Off**" means:

- (o) a distribution of Spin-Off Securities by the Bank to Shareholders as a class; or
- (p) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Bank or any member of the Group;

"**Spin-Off Securities**" means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

"**SRM Regulation**" means Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010;

"**Subsidiary**" means any entity over which the Bank may have, directly or indirectly, control in accordance with Applicable Banking Regulations;

"**TARGET Business Day**" means any day on which the Trans-European Automated Real Time Gross Settlement Transfer (TARGET 2) system is open;

"**Tax Event**" means that as a result of any change in the laws or regulations of Spain or in the official interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of the Preferred Securities (a) the Bank would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts as provided in Condition 10, or (c) the applicable tax treatment of the Preferred Securities changes in a material way and was not reasonably foreseeable at the Closing Date;

"**Tier 1 Capital**" means at any time, with respect to the Bank or the Group, as the case may be the Tier 1 capital of the Bank or the Group, respectively, as calculated by the Bank in accordance with Chapters 1, 2 and 3 (Tier 1 capital, Common Equity Tier 1 capital and Additional Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

"**Trigger Conversion**" has the meaning given in Condition 5.1(c);

"**Trigger Event**" means if, at any time, the CET1 ratio of the Bank or the Group calculated in accordance with Applicable Banking Regulations is less than 5.125 per cent, as determined by the Bank or the Regulator;

"**Trigger Event Notice**" has the meaning given in Condition 5.1(a);

"**Trigger Event Notice Date**" means the date on which a Trigger Event Notice is given in accordance with Condition 5.1;

"**U.S. \$**" and "**U.S. dollars**" means the lawful currency of the United States of America;

"U.S. Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for the purposes of trading in U.S. government securities;

"Volume Weighted Average Price" means, in respect of a Common Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of a Common Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of a Common Share) from the Reference Page or (in the case of a Security (other than Common Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, **provided that** if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Common Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate; and

"Voting Rights" means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

- 1.2 References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made in accordance therewith or under such modification or re-enactment.
- 1.3 References to any issue or offer or grant to Shareholders or Existing Shareholders **"as a class"** or **"by way of rights"** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.
- 1.4 In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Common Shares or any issue of Common Shares by way of capitalisation of profits or reserves, or any like or similar event.
- 1.5 For the purposes of Condition 5.3 only (a) references to the **"issue"** of Common Shares or Common Shares being issued shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Common Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Common Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 5.3(d) and 5.3(f), do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2. **FORM, STATUS AND WAIVED SET-OFF RIGHTS**

- 2.1 The Preferred Securities will be issued in bearer form.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Bank to a common depositary for the European Clearing Systems. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant European Clearing System. It is anticipated that only in exceptional circumstances (such as the closure of Euroclear and Clearstream, the

non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Euroclear and Clearstream or failure to comply with the terms and conditions of the Preferred Securities by the Bank) will definitive Preferred Securities be issued directly to such accountholders

2.2 Unless previously converted into Common Shares pursuant to Condition 5, the payment obligations of the Bank under the Preferred Securities on account of the Liquidation Preference or otherwise of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank and, in accordance with Additional Provision 14.3^o of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank for so long as the obligations of the Bank in respect of the Preferred Securities constitute an Additional Tier 1 Instrument, rank:

- (a) *pari passu* among themselves and with (i) all other claims in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments and (ii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank's obligations under Additional Tier 1 Instruments;
- (b) junior to (i) any unsubordinated obligations of the Bank, (ii) any subordinated obligations (*créditos subordinados*) of the Bank which become subordinated pursuant to Article 92.1^o of the Insolvency Law and (iii) any other subordinated obligations (*créditos subordinados*) which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Bank's obligations under Additional Tier 1 Instruments; and
- (c) senior to (i) any claims for the liquidation amount of the Common Shares and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under Additional Tier 1 Instruments

2.3 No Holder may at any time exercise any right of, or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities against any right, claim, or liability the Bank has or may have or acquire against such Holder, directly or indirectly, howsoever arising (and, for the avoidance of doubt, including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any sort, whether or not relating to such Preferred Security) and each Holder shall be deemed to have waived all rights of, or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Bank in respect of, or arising under or in connection with the Preferred Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Bank and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, nothing in this Condition is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Preferred Securities but for this Condition 2.3.

3. **DISTRIBUTIONS**

3.1 The Preferred Securities accrue Distributions:

- (a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of [•] per cent. per annum; and

- (b) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the [5]-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 3.3 to 3.5 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the "**Accrual Date**") to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

- 3.2 The Bank will be discharged from its obligations to pay Distributions on the Preferred Securities by payment to the Principal Paying Agent for the account of the holder of the relevant Preferred Securities on the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in U.S. dollar by transfer to an account capable of receiving U.S. dollar payments, as directed by the Principal Paying Agent.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

Payments of amounts due in respect of Distributions on the Preferred Securities will not be made at the specified office of any Paying and Conversion Agent in the United States (as defined in the Code (as defined in Condition 10.4) and any regulations thereunder) unless (a) payment in full of amounts due in respect of Distributions on such Preferred Securities when due at all the specified offices of the Paying and Conversion Agent outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment is permitted by applicable United States law. If parts (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying and Conversion Agent with a specified office in New York City

- 3.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason.
- 3.4 Payments of Distributions in any financial year of the Bank shall be made only out of Available Distributable Items. To the extent that (i) the Bank has insufficient Available Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding and CET1 Capital securities, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items, and/or (ii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.
- 3.5 No payment will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group).

- 3.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 3.3 above or the limitations on payment set out in Conditions 3.4 and 3.5 above then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.
- 3.7 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Conditions 3.4 and 3.5 above will constitute an event of default, any breach of any obligation of the Bank under the Preferred Securities or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security or other securities, except to the extent Applicable Banking Regulations otherwise provide.
- 3.8 The election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Conditions 3.4 and 3.5 above will be notified by the Bank to the Holders in accordance with Condition 11 as soon as possible. The failure to notify Holders as aforesaid will not invalidate the cancellation of the payment of any Distribution.
- 3.9 Save as described in this Condition 3, the Preferred Securities will confer no right to participate in the profits of the Bank.
- 3.10 The Agent Bank will at or as soon as practicable after the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 11 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.
- 3.11 For the avoidance of doubt, the Agent Bank shall not be responsible to the Bank, the Holders or any third party as a result of the Agent Bank having relied upon any quotation, ratio or other information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way or for any losses arising by virtue thereof.
- 3.12 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, fraud or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions

4. **LIQUIDATION DISTRIBUTION**

- 4.1 Subject as provided in Condition 4.2 below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Common Shares or any other instrument of the Bank ranking junior to the Preferred Securities.

- 4.2 If, before such liquidation or winding-up of the Bank described in Condition 4.1, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to Condition 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 4.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up.
- 4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

5. **CONVERSION**

- 5.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with Condition 11 below (together, the "**Trigger Event Notice**"), **provided that** the failure to notify the Regulator and Holders as aforesaid will not invalidate the conversion;
 - (b) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions, which shall be cancelled by the Bank in accordance with Condition 3 above; and
 - (c) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (the "**Trigger Conversion**") to be delivered on the relevant Conversion Settlement Date.

Holders shall have no claim against the Bank in respect of (i) any Liquidation Preference of Preferred Securities converted into Common Shares or (ii) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

A Trigger Event will not constitute an event of default, any breach of any obligation of the Bank under the Preferred Securities or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause liquidation, dissolution or winding up of the Bank.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (A) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (B) calculate and publish the CET1 ratio on at least a quarterly basis. The Bank's calculation shall be binding on the Holders.

- 5.2 Subject as provided in Condition 5.9, the number of Common Shares to be issued on Trigger Conversion in respect of each Preferred Security to be converted (the "**Conversion Shares**") shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or,

in the circumstances described in Condition 5.10, any cash amounts to which such Holders are entitled under Condition 5.10.

If the Trigger Event occurs, the Preferred Securities will be converted in whole and not in part as provided in this Condition 5.

The Preferred Securities are not convertible into Common Shares at the option of Holders at any time and are not redeemable in cash as a result of the Trigger Event. The Trigger Conversion will not constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank.

5.3 Upon the happening of any of the events described below, the Floor Price shall be adjusted as follows:

- (a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Common Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Common Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

- (b) If and whenever the Bank shall issue any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (i) where any such Common Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares or (iii) where any such Common Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such issue; and

B is the aggregate number of Common Shares in issue immediately after such issue.

Such adjustment shall become effective on the first day on which Common Shares are traded ex-rights on the relevant Stock Exchange.

- (c)

- (i) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A - C}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date;
- B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Common Shares entitled to receive the relevant Dividend; and
- C is the amount (if any) by which the Reference Amount determined in respect of the Relevant Dividend exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Common Share paid or made in such Relevant Year (where C shall equal zero if such previous Cash Dividends per Common Share are equal to, or exceed, the Reference Amount in respect of the Relevant Year). For the avoidance of doubt, "C" shall equal the Reference Amount determined in respect of the Relevant Dividend where no previous Cash Dividends per Common Share have been paid or made in such Relevant Year.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

"**Effective Date**" means, in respect of this Condition 5.3(c)(i), the first date on which the Common Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

"**Extraordinary Dividend**" means:

- I any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term (including any distribution made as a result of any capital reduction), in which case the Extraordinary Dividend shall be such Cash Dividend; or
- II any Cash Dividend (the "**Relevant Dividend**") paid or made in a financial year of the Bank (the "**Relevant Year**") if (A) the Fair Market Value of the Relevant Dividend per Common Share or (B) the sum of (I) the Fair Market Value of the Relevant Dividend per Common Share and (II) an amount equal to the aggregate of the Fair Market Value or Fair Market Values of any other Cash Dividend or Cash Dividends per Common Share paid or made in the Relevant Year (other than any Cash Dividend or part thereof previously determined to be an Extraordinary Dividend paid or made in such Relevant Year), exceeds the Reference Amount, and in that case the Extraordinary Dividend shall be the amount by which the Reference Amount is so exceeded.

"Reference Amount" means an amount per Ordinary Share that is consistent with the dividend policy of the Bank as applied or to be applied for a period or projected period of at least three years.

- (ii) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Common Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, by the number of Common Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Common Shares, or any Common Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

"Effective Date" means, in respect of this Condition 5.3(c)(ii), the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Common Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (iii) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of **"Dividend"** and in the definition of **"Fair Market Value"**) be determined as at the Effective Date.
- (iv) In making any calculations for the purposes of this Condition 5.3(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (A) any consolidation or sub-division of any Common Shares or (B) the issue of Common Shares by way of capitalisation of profits or reserves (or any like or similar event) or (C) any increase in the number of Common Shares in issue in the Relevant Year in question.
- (d) If and whenever the Bank shall issue Common Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other

rights to subscribe for or purchase or otherwise acquire any Common Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Common Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue on the Effective Date;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Common Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Common Share; and
- C is the number of Common Shares to be issued or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 5.3(d), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(d), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(d), the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (e) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Common Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Common Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Common Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(e), the first date on which the Common Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

- (f) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any Common Shares (other than Common Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Common Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before the issue of such Common Shares or the grant of such options, warrants or rights;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the issue of such Common Shares or, as the case may be, for the Common Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Common Share on the Effective Date; and
- C is the number of Common Shares to be issued pursuant to such issue of such Common Shares or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the time of issue of such Common Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 5.3(f), the "**Specified Date**"), such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(f), "C" shall be determined by the application of such formula or variable

feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(f), the date of issue of such Common Shares or, as the case may be, the grant of such options, warrants or rights.

- (g) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Conditions 5.3(d), 5.3(e) or 5.3(f) above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Common Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified/re-designated as Common Shares, and the consideration per Common Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Common Shares to be issued or to arise from any such reclassification/re-designation would purchase at such Current Market Price per Common Share; and
- C is the maximum number of Common Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Common Shares which may be issued or arise from any such reclassification/re-designation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 5.3(g), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/re-designated or at such other time as may be

provided), then for the purposes of this Condition 5.3(g), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(g), the date of issue of such Securities or, as the case may be, the grant of such rights.

- (h) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 5.3(g) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Common Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Common Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Common Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 5.3(h) or Condition 5.3(g) above;

provided that if at the time of such modification (as used in this Condition 5.3(h), the "**Specified Date**") such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 5.3(h), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such

conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(h), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (i) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Conditions 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(f) above or Condition 5.3(j) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Common Share on the relevant dealing day under Condition 5.3(e) above)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(i), the first date on which the Common Shares are traded ex-rights on the Relevant Stock Exchange.

- (j) If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders

Notwithstanding the foregoing provisions:

- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 5.3 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- (i) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (A) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (B) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), the following provisions shall apply:

- I the aggregate consideration receivable or price for Common Shares issued for cash shall be the amount of such cash;
- II (A) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (B) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Conditions 5.3(d), 5.3(f), 5.3(g) or 5.3(h), as the case may be, plus in the case of each of (A) and (B) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (C) the consideration receivable or price per Common Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (A) or (B) above (as the case may be) divided by the number of Common Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- III if the consideration or price determined pursuant to (I) or (II) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of (I) above) or the relevant date of first public announcement (in the case of (II) above);
- IV in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Common Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- V the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

5.4 If the record date in respect of any consolidation, reclassification/redesignation or sub-division as is mentioned in Condition 5.3(a) above, or the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Conditions 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(i) above, or the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 5.3(f) and 5.3(g) above or of the terms of any such modification as is mentioned in Condition 5.3(h) above, shall be after the Trigger Event Notice Date in relation to the conversion of any Preferred Security but before the date on which the resolution of issuance of the Common Shares is approved, then the Bank shall procure the execution of the corresponding adjustment mechanism under Condition 5.3 above so that there shall be issued and delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such number

of Common Shares that could be required to be issued and delivered on such conversion taking into account the relevant adjustment to the Floor Price under Condition 5.3 above and all references to the issue and/or delivery of Common Shares or Conversion Shares in these Conditions shall be construed accordingly.

- 5.5 If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of wilful default, bad faith or manifest error.
- 5.6 No adjustment will be made to the Floor Price where Common Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any of member of the Group or any associated company or to a trustee or trustees or intermediary to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.
- 5.7 On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 11 below promptly after the determination thereof.

- 5.8 On the Trigger Conversion of the Preferred Securities, the Common Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled.
- 5.9 Fractions of Common Shares will not be issued on Trigger Conversion and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Common Shares.
- 5.10 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository such number of Common Shares as is required to satisfy in full the Bank's obligation to deliver Common Shares in respect of the Trigger Conversion of the aggregate amount of Preferred Securities outstanding on the Trigger Event Notice Date.

In order to obtain delivery of the relevant Common Shares upon any Trigger Conversion from the Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (a) such Delivery Notice to the Principal Paying Agent through the relevant Clearing System and (b) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant Clearing System, each in accordance with the

procedures of such Clearing System) no later than 5 Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the "**Notice Cut-off Date**").

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Common Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, **provided that** such duly completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the 10th Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the "**Selling Agent**") to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, and the conversion of any proceeds of such sale into U.S. dollars, the net proceeds of sale, converted into U.S. dollars at the Prevailing Rate on the Notice Cut off Date, if necessary, shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 3.2 or in such other manner and at such time as the Bank shall determine and notify to the Holders.

Such payment shall for all purposes discharge the obligations of the Settlement Shares Depository and the Selling Agent in respect of the Trigger Conversion.

The Bank, the Principal Paying Agent, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 5.10 or in respect of any sale of any Common Shares, whether for the timing of any such sale or the price at or manner in which any such Common Shares are sold or the inability to sell any such Common Shares.

If the Bank does not appoint the Selling Agent by the 10th Business Day after the Conversion Settlement Date, or if any Common Shares are not sold by the Selling Agent in accordance with this Condition 5.10, such Common Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void and the Bank shall be entitled to procure the sale of any applicable Common Shares to which the relevant Holder may be entitled in accordance with this Condition 5.10. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this Condition 5.10 shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

- 5.11 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 5.10 above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Trigger Conversion (other than any taxes or capital, issue and registration and transfer taxes or stamp duties payable in Spain by the Bank in respect of the issue and delivery of the Common Shares in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank) and such Holder or the Selling Agent (as the case may be) must pay (in the case of the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or Selling Agent, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

- 5.12 The Common Shares issued on Trigger Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Common Shares in issue on the Trigger Event Notice Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Common Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Trigger Event Notice Date.
- 5.13 Neither the Principal Paying Agent nor the Agent Bank shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event (or its disapplication, if applicable) or any consequent conversion or any claims in respect thereof, and the Principal Paying Agent and the Agent Bank shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.
- 5.14 Notwithstanding any other provision of this Condition 5 and subject to compliance with the provisions of the Spanish Companies Act and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Common Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

6. **OPTIONAL REDEMPTION**

- 6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 6.
- 6.2 Subject to Conditions 6.3 and 6.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on the First Reset Date and on any Distribution Payment Date falling after the First Reset Date, at the Redemption Price, in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations then in force.
- 6.3 If, on or after the Closing Date, there is a Capital Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, at any time, at the Redemption Price, in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations then in force.
- 6.4 If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, at any time, at the Redemption Price, in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations then in force.
- 6.5 The decision to redeem the Preferred Securities must be irrevocably notified by the Bank to Holders upon not less than 30 nor more than 60 days' notice prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 11.
- 6.6 If the Bank gives notice of redemption of the Preferred Securities, then by 12:00 (CET) on the relevant redemption date, the Bank will:
- (a) irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

- (b) give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders.
- 6.7 If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:
 - (a) Distributions on the Preferred Securities shall cease;
 - (b) such Preferred Securities will no longer be considered outstanding; and
 - (c) the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.
- 6.8 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue, subject as provided in Condition 3 above, at the rate specified from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.
- 6.9 The Bank may not give a notice of redemption pursuant to this Condition 6 if the Trigger Event has occurred. If the Trigger Event has occurred after a notice of redemption shall have been given by the Bank but before the relevant redemption date, such notice of redemption shall automatically be revoked and be null and void and the relevant redemption shall not be made.
- 6.10 Following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to receiving consent from the Regulator, if needed, having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11, either (a) substitute new preferred securities for the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that, in either case, the Preferred Securities remain or, as appropriate, so that they become, Qualifying Preferred Securities.

The Bank may not substitute the Preferred Securities or vary the terms of the Preferred Securities according to the preceding paragraph if the Trigger Event has occurred. If the Trigger Event has occurred after a notice of substitution or variation shall have been given by the Bank but before the relevant substitution or variation is effected, such notice shall automatically be revoked and be null and void and the relevant substitution or variation shall not be made.

7. **PURCHASES OF PREFERRED SECURITIES**

The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time.

8. **UNDERTAKINGS**

So long as any Preferred Security remains outstanding, the Bank will, save with the approval of an Extraordinary Resolution:

- (a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Trigger Conversion, Common Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (b) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Common Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer

or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all commercially reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Common Shares issued during the period of the offer or scheme arising out of the Trigger Conversion and/or to the Holders;

- (c) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the ordinary shares of Newco are:

- (i) admitted to the Relevant Stock Exchange; or
- (ii) listed and/or admitted to trading on another Recognised Stock Exchange,

and the Holders irrevocably authorise the Bank to make such amendments to these Conditions without the need for any further authorisation from the General Meeting of Holders;

- (d) issue, allot and deliver Common Shares upon Trigger Conversion subject to and as provided in Condition 5;
- (e) use all reasonable endeavours to ensure that its issued and outstanding Common Shares and any Common Shares issued upon Trigger Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;
- (f) at all times keep in force the relevant resolutions needed for issue, free from pre-emptive rights, sufficient authorised but unissued Common Shares to enable Trigger Conversion of the Preferred Securities, and all rights of subscription and exchange for Common Shares, to be satisfied in full; and
- (g) where the provisions of Condition 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, the Bank shall use all reasonable endeavours promptly to appoint such person for such purpose.

9. GENERAL MEETING OF HOLDERS

- 9.1 The Bank may, without the consent of the Holders, but with prior notice to the Principal Paying Agent, amend these Conditions to (a) correct any manifest error, (b) make any amendment of a formal, minor or technical nature or to comply with mandatory provisions of law, or (c) make any amendment that is not prejudicial to the interests of the Holders. Additionally, following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to receiving consent from the Regulator (if needed), substitute or amend the Preferred Securities as set forth in Condition 6.10 above.

In addition, the Bank and the Holders, the latter with the sanction of a resolution of the General Meeting of Holders, may agree any modification, whether material or not, to these Conditions and any waiver of any breach or proposed breach of these Conditions, subject to receiving consent from the Regulator when such consent is required under Applicable Banking Regulations.

9.2

- (a) The Bank may at any time and, if required in writing by Holders holding not less than 10 per cent in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall convene a General Meeting of Holders and if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders. Whenever the Bank is about to convene any meeting it shall immediately give notice in writing to the Principal Paying Agent of the day, time and place of the meeting and the nature of the business to be transacted at the meeting as well as the terms of the Extraordinary Resolutions to be proposed to the meeting. Every meeting shall be held at a time and place approved by the Principal Paying Agent.
- (b) At least 21 natural days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 11. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (i) specify the terms of the Extraordinary Resolution to be proposed or (ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, **provided that**, in the case of (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (ii) inform Holders that details of the voting arrangements are available free of charge from the Principal Paying Agent, **provided that**, in the case of (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).
- (c) The person (who may but need not be a Holder) nominated in writing by the Bank (the "Chairman") shall be entitled to take the chair at each meeting but if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting the Holders present shall choose one of their number to be Chairman, failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.
- (d) At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 9.1(c)) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent in Liquidation Preference of the Preferred Securities for the time being outstanding **provided that** at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):
- (i) without prejudice to the provisions of Condition 3 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or
 - (ii) a modification of the currency in which payments under the Preferred Securities are to be made; or
 - (iii) a modification of the majority required to pass an Extraordinary Resolution; or
 - (iv) alteration of this proviso or the proviso to Condition 9.1(f) below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

- (e) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 9.1(a), be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following Business Day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 natural days nor more than 42 natural days and at a place appointed by the Chairman and approved by the Principal Paying Agent). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 natural days (but without any maximum number of natural days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.
- (f) At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, **provided that** at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 9.1(d) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.
- (g) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 9.1(b) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

9.3

- (a) Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.
- (b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.
- (c) Subject to Condition 9.2(e) if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent

the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

- (d) The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business, which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.
- (e) Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.
- (f) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.
- (g) Subject as provided in Condition 9.2(f), at any meeting:
 - (i) on a show of hands every Eligible Person present shall have one vote; and
 - (ii) on a poll every Eligible Person present shall have one vote in respect of each \$200,000 or such other amount as the Principal Paying Agent shall in its absolute discretion specify in Liquidation Preference of the Preferred Securities in respect of which he is an Eligible Person and no liability to any Eligible Person shall attach to the Principal Paying Agent in connection with the exercise of such discretion.
- (h) Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 11 by the Bank within 14 days of the result being known **provided that** non-publication shall not invalidate the resolution.
- (i) To be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9, (i) a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll and (ii) an Extraordinary Resolution shall require a majority consisting of not less than 75 per cent of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent of the votes given on the poll, and subject to the provisions relating to the quorum contained in Conditions 9.1(d) and 9.1(f),
- (j) The expression "**Extraordinary Resolution**" when used in this Condition 9 means a resolution to be passed by the General Meeting of Holders in connection with the following matters:
 - (i) any compromise or arrangement proposed to be made between the Bank and the Holders;
 - (ii) any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Agency Agreement, these Conditions or the Preferred Securities or otherwise;
 - (iii) any modification of the provisions contained in the Agency Agreement, these Conditions or the Preferred Securities, which is proposed by the Bank, other than as set forth in the first paragraph to Condition 9.1 above;

- (iv) any authority or approval which under the provisions of Condition 9 or the Preferred Securities is required to be given by Extraordinary Resolution; and
 - (v) any appointment of any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution.
- (k) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had transpired shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had transpired at the meeting to have been duly passed or had.
- (l) For the purposes of calculating a period of natural days, no account shall be taken of the day on which a period commences or the day on which a period ends.
- (m) The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit and no liability to the Bank or the Holders shall attach to the Principal Paying Agent in connection with the exercise of such discretion. Notice of any such regulations may be given to Holders in accordance with Condition 11 and/or at the time of service of any notice convening a meeting.

10. TAXATION

- 10.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges (collectively "**Taxes**") of whatever nature imposed or levied by or on behalf of Spain, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required, **provided that** (i) no additional amount will be paid with regard to payments of the Liquidation Preference and (ii) no payments of additional amounts will be made if and to the extent that the Bank has insufficient Available Distributable Items to pay such additional amounts, Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities and CET1 Capital securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Available Distributable Items.
- 10.2 The Bank shall not be required to pay any additional amounts as referred to in Condition 10.1 in relation to any payment in respect of Preferred Securities:
- (a) to, or to a third party on behalf of, a Holder or to the beneficial owner of Preferred Securities who is liable for such Taxes in respect of such Preferred Security by reason of his having some connection with Spain other than the mere holding of such Preferred Security; or
 - (b) to, or to a third party on behalf of, a Holder or to the beneficial owner in respect of whose Preferred Security the Bank does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to Law 10/2014 and Royal Decree 1065/2007, and any implementing legislation or regulation; or

- (c) to, or to a third party on behalf of, a Holder or to the beneficial owner of Preferred Securities who failed to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such holder or beneficial owner, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or
 - (d) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
 - (e) in relation to any estate, inheritance, gift, sales, transfer or similar taxes; or
 - (f) to, or to a third party on behalf of, a Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of Spain to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the Holder.
- 10.3 In addition, additional amounts as referred to in Condition 10.1 will not be payable with respect to any Taxes that are imposed in respect of any combination of the items set forth above.
- 10.4 All payments in respect of the Preferred Securities will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10.1 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto and, accordingly, the Bank shall not be required to pay any additional amounts under Condition 10.1 above.
- 10.5 For the purposes of this Condition 10, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 11 below.

See "Taxation" for a fuller description of certain tax considerations relating to the Preferred Securities.

11. **NOTICES**

Notices, including notice of any redemption of the Preferred Securities, will be valid if published in a leading English language daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or on the website of Euronext Dublin (www.ise.ie) (so long as the Preferred Securities are listed on Euronext Dublin and the rules of that exchange so require) or, in either case if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe.

Until such time as any definitive Preferred Securities are issued, there may, so long as any global Preferred Securities representing the Preferred Securities are held in their entirety on behalf of Euroclear and/or Clearstream be substituted for such publication the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the persons shown in their respective records as having interests therein **provided that**, the requirements of any relevant listing authority, stock exchange and/or quotation system have been complied with.

Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the first date on which publication is made) or, as the case may be, on the fourth day after the date of such delivery to Euroclear and Clearstream and any other relevant clearing system.

12. **AGENTS**

In acting under the Agency Agreement and in connection with the Preferred Securities, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, a successor agent bank, and additional or successor paying agents; **provided, however, that** the Bank will maintain (a) a Principal Paying Agent and an Agent Bank, (b) a Paying Agent (which may be the Principal Paying Agent) with a specified office in a European city, and (c) so long as the Preferred Securities are listed on any stock exchange and/or quotation system and the rules of such listing authority, stock exchange and/or quotations system so require, a Paying Agent (which may be the Principal Paying Agent) with a specified office in such place as may be required by the rules of such listing authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Holders.

13. **PRESCRIPTION**

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

14. **GOVERNING LAW AND JURISDICTION**

14.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

Each of the Bank and any Holder submits to the exclusive jurisdiction of the Spanish courts, in particular, to the venue of the city of Madrid, in relation to any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities, and any dispute arising out of or in connection with the application of any Spanish Bail-in Power or the Non-Viability Loss Absorption power by the Relevant Spanish Resolution Authority) (a "**Dispute**") and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") will be brought in such courts. Each of the Bank and any Holder in relation to the Proceedings further waives any objection to the Spanish courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

Appendix III. Record of decisions of 6th February 2019

**MINUTES OF DECISIONS MADE BY THE HEAD OF TEAM OF THE
DEPARTMENT FOR CORPORATE ISSUANCES (FINANCIAL MANAGEMENT
AREA) OF BANCO SANTANDER, S.A.**

In Madrid, on 6 February 2019, at Ciudad Financiera del Grupo Santander, located at: Avenida de Cantabria s/n, 28660, Boadilla del Monte (Madrid), the Head of Team of the Department for Corporate Issuances (Financial Management Area) of Banco Santander, S.A. (“**Banco Santander**”, the “**Bank**” or the “**Company**”), Ms Silvana Leticia Borgatti Casale, hereby states the following decisions made by him on the date hereof:

In exercise of the powers granted to the Head of Team of the Department for Corporate Issuances (Financial Management Area) of Banco Santander, Ms Silvana Leticia Borgatti Casale, by the executive committee of the Company by virtue of the resolution adopted at its meeting held on 4 February 2019 in accordance with the powers delegated to the board of directors by virtue of the Tenth A) Resolution adopted by the Ordinary General Shareholders’ Meeting of the Bank held on March 27, 2015 and the subsequent substitution of powers carried out by the Board in favour of the said executive committee at its meeting held on the aforementioned date relating to the issue of contingently convertible preferred securities into newly-issued ordinary shares of Banco Santander, with the exclusion of the pre-emptive rights, for a maximum amount of two thousand million U.S. dollars (\$ 2,000,000,000) (the “**CCPS**” and the “**Issue Resolution**”, respectively), considering the accelerated bookbuilding process carried out on the date hereof by Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch and HSBC Bank plc and the Bank itself, I proceed to supplement, in the name and on behalf of the Bank, the terms and conditions of the said issue, as regards anything not established in the Issue Resolution adopted by the executive committee, as well as to adjust them as necessary in accordance with the accelerated bookbuilding process, by defining them with the following terms; the issue of the CCPS, in the terms supplemented and specified herein, will be hereinafter referred to as the “**Issue**”:

FIRST.- Determination of the total nominal value of the CCPS

The total nominal value of the Issue amounts to one thousand two hundred million U.S. dollars (\$ 1,200,000,000). The total amount of the Issue will be the amount that corresponds to the nominal value of the CCPS that are effectively subscribed and paid-up, and it will have no effect as regards the rest.

It is stated that, if the issue were subscribed in full, (i) the amount used out of the maximum amount authorised pursuant to resolution Ten A) adopted at the Bank’s ordinary general shareholders meeting held on 27 March 2015 would be FOUR THOUSAND THREE HUNDRED AND SIX THOUSAND MILLION EUROS (€ 4,306,000,000) and (ii) FIVE THOUSAND SIX HUNDRED AND NINETY-FOUR MILLION EUROS (€ 5,694,000,000) would remain available for drawdown. For these purposes, it has been taken as the reference exchange rate the U.S. dollar/ euro exchange rate of the 5 February 2019 that appeared reflected on the relevant page of Reuters, which amounted to 0.88 U.S. dollars per euro.

SECOND.- Determination of the Minimum Conversion Price

The Minimum Conversion Price is fixed in 3.090 U.S. dollars. In accordance with the Resolution for the Issue, this amount is equivalent to, approximately, 66% of the listing price of the Banco Santander's shares at the close of the market on 5 February 2019, converted into U.S. dollars at the Prevailing Rate (as this term is defined in the Issue Resolution).

Therefore, the maximum amount of the capital increase that might be required to accommodate the conversion of the CCPS, will be determined as the quotient (rounded off by default) resulting from dividing the total nominal amount of the issue of CCPS (1,200 million U. S. dollars) by the Minimum Conversion Price of 3.090 U.S. dollars (subject to and notwithstanding the anti-dilution adjustments to the Minimum Conversion Price and, as a consequence, to the resulting conversion ratio), so that the maximum amount of the capital increase that would be required to carry out the conversion of all the CCPS of the issue (in one or multiple rounds) would amount to 194,174,757 euros, equivalent to 388,349,514 shares (subject to and notwithstanding the anti-dilution adjustments to the Minimum Conversion Price and, as a consequence, to the resulting conversion ratio).

THIRD.- Determination of remuneration rate of the CCPS

The annual remuneration rate for the CCPS is established: (a) from the Disbursement Date (as defined in the Fourth Decision below) (inclusive) to the fifth anniversary of the said Date (excluded), at 7.5%, and (b) from the fifth anniversary of the Disbursement Date onwards, for each five-year period, at the rate resulting from the addition of 498.9 basis points to the 5-year Mid-Swap Rate, which applies to each period as established by the terms and conditions of the Issue approved by the Executive Committee of the Bank at its meeting held on 4 February 2019.

FOURTH.- Determination of the subscription period, the disbursement date for the CCPS, the remuneration accrual period and the First Reset Date

In accordance with the Issue Resolution, the subscription period of the CCPS is established to be: from 9:00 am to 11:00 am on 8 February 2019.

Likewise, it is established that the subscription and disbursement date for the CCPS, in accordance with the Issue Resolution, will be on 8 February 2019 (the “**Disbursement Date**”).

Consequently, in compliance with the provisions of the Issue Resolution, the remuneration of the CCPS will be accrued from the Disbursement Date and will be payable quarterly in arrears; where applicable, the payment of the remuneration will be made on the following dates: 8 February, 8 May, 8 August and 8 November of each year.

Likewise, it is agreed to determine the First Reset Date (as defined in the terms and conditions) on 8 February 2024. In accordance with the provisions of the terms and conditions of the Issue, from that date onwards, and since then on any of the distribution payment dates, the Issue may be redeemed in whole (but not in part), at the option of the Bank, in accordance with the procedure provided for in articles 77 and 78 of CRR.

[signature]

Ms Silvana Leticia Borgatti Casale