

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.

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Madrid, 4 February 2019