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MATERIAL FACT

Banco Santander, S.A. ("**Banco Santander**" or the "**Bank**") communicates that its board of directors, in exercise of the authority delegated by the ordinary shareholders' meeting held on March 28, 2014 under item nine of its agenda, has decided to carry out a capital increase by which the Bank expects to attract an amount of up to 7,500 million euros, through the issuance of up to 1,258,441,465 shares each with a par value of fifty euro cents (€0.50), of the same class and series as the shares currently outstanding and represented through book-entries (hereinafter, the "**New Shares**"), excluding pre-emption rights (hereinafter, the "**Capital Increase**").

The issuance of the New Shares will be carried out at their par value of fifty euro cents (€0.50) per share plus a share premium that will be determined according to the result of the accelerated bookbuilding process described in the section titled "Bookbuilding Process" below.

1. PURPOSE

This strengthening of its capital will allow the Bank to accompany the growth of the economies where it is present. The forecast for economic growth in the markets where Banco Santander operates confirms a change of cycle, since in 2016 the economies of the euro zone (Spain, Portugal and Germany) will grow at rates of around 2%; Brazil, United Kingdom, United States, Poland and Argentina, around 3%, and Mexico and Chile, above 4%. Therefore, strengthening the capital now will allow the Bank to capture the organic growth opportunities, increasing credit and business share in its key markets.

Following the Capital Increase, Banco Santander will reformulate its dividend policy returning to payments in cash of most of it. The current "*Santander Dividendo Elección*" program (scrip dividend scheme) has allowed the Bank to recapitalize in pace with the regulatory requirements during the crisis years while enabling to the shareholders to decide whether to receive their compensation in shares or cash.

Given the improved economic growth scenario and the change in tax legislation, that worsens the tax treatment of the scrip dividend, the intention of the board of directors is to have a remuneration against the 2015 results of 0.20 euros per share, which, as always, would be paid in four instalments, three of which will be in cash and the other in shares or cash at the election of the shareholder¹.

¹ Banco Santander maintains its previously stated intention that the shareholders remuneration corresponding to the 2014 results be supplemented with the application of the "*Santander Dividendo Elección*" program (scrip dividend scheme) on January/February and April/May 2015, in each case, for an approximate amount of fifteen euro cents per share.

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In the coming years, the evolution of the dividend will be commensurate with the growth of results, with a cash pay-out target of between 30% and 40% of the recurring profit, instead of the current 20%. This transaction is positive for the shareholders, as it will improve the earnings per share (EPS) from 2016.

The recent stress tests performed by the European Central Bank (ECB) and the European Banking Authority (EBA) show that Banco Santander has a solid capital position and comfortably complies with the ratios that are required in accordance with applicable law. With this Capital Increase, Banco Santander anticipates compliance with Basel III capital requirements, assuming their full implementation from this year, although they would only be mandatory from January 2019, taking advantage of the current market momentum.

Following the Capital Increase, the Bank will already reach this year a *fully loaded* equity ratio of *circa* 10%. This level would place Santander internationally among the banks with higher capital strength, considering that Banco Santander has a geographic diversification and a retail business model that allows low volatility in its results, as has been confirmed in the recent ECB tests.

2. BOOKBUILDING PROCESS

The Capital Increase will be carried out by means of an "*Accelerated Bookbuilding Offering*" procedure or "*ABO*", exclusively among qualified investors. Therefore, the issuance of new shares does not constitute a public offer of securities.

To allow the placement of the New Shares of the Capital Increase through this process, the pre-emption rights of Banco Santander's current shareholders are being waived.

The placement process will be carried out in the terms set out below:

- i. Once this relevant fact is published, Goldman Sachs International and UBS Limited, acting as Joint Bookrunners (hereinafter, jointly, the "**Joint Bookrunners**"), and Banco Santander, acting as Co-Bookrunner, will begin the bookbuilding process during which they will receive subscription orders from the qualified investors to whom the Capital Increase is addressed. It is foreseen that this bookbuilding process will last up to 24 hours, notwithstanding that it could be extended if the Bank and the Joint Bookrunners deem it appropriate.
- ii. Once the bookbuilding process has ended, the price of the offer of the New Shares will be determined and the selection of the subscription proposals will be carried out, proceeding then to the confirmation of the selected proposals and to the final allocation of the New Shares to the corresponding qualified investors. In any case, the Joint Bookrunners have committed, pursuant to an underwriting agreement executed with Banco Santander today (the "**Underwriting Agreement**"), to subscribe for and pay up the New Shares that are not subscribed by qualified investors. The Underwriting Agreement includes a commitment by Banco Santander to abstain from issuing or selling Banco Santander shares (lock up), in the terms and with the customary exceptions in this kind of transaction, for a period of 90 days from the date of listing of the New Shares on the Spanish Stock Exchanges.
- iii. Once the New Shares are allocated, they will be subscribed for and paid up by the Joint Bookrunners, acting on their behalf and, where applicable, on behalf of the allocated investors. Following this, the public deed of the Capital Increase will be executed and registered with the Commercial Registry of Cantabria, the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.

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Unipersonal (IBERCLEAR) will assign the relevant register references to the New Shares and the admission to listing verification by the Spanish National Securities Market Commission and admission to listing of the New Shares by the Spanish Stock Exchanges will be requested.

- iv. Subsequently, where relevant, the New Shares paid up by the Joint Bookrunners will be transferred to the relevant allocated qualified investors through a special stock market transaction which will be settled in accordance with the procedures established by IBERCLEAR for this kind of transaction.

3. RIGHTS OF THE NEW SHARES

The New Shares will be ordinary shares of the same class and series and will have the same political and economic rights as the remaining ordinary shares of Banco Santander currently outstanding. In particular, it is foreseen that the New Shares will grant the right to participate in the “*Santander Dividendo Elección*” program, which is expected to be implemented in January 2015, as it was announced by means of a material fact on October 27, 2014.

4. MARKETS WHERE THE SHARES OF THE BANK ARE LISTED. REQUEST FOR ADMISSION TO TRADING

Banco Santander will request the admission to listing of the New Shares on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, through the Spanish Stock Exchange Interconnection System (SIBE or continuous market), not requiring to such effect the registration and approval of a prospectus by the Spanish National Securities Market Commission, pursuant to article 26.1.e) of Royal Decree 1310/2005.

Furthermore, Banco Santander will additionally request the admission to listing of the New Shares on the foreign Stock Exchanges where the shares of the Bank are listed (currently, Lisbon, London, Milan, Warsaw, Buenos Aires, Mexico, New York –through *American Depositary Shares* or ADSs– and São Paulo –through *Brazilian Depositary Receipts* or BDRs–), performing all the necessary formalities to such effect.

Boadilla del Monte (Madrid), January 8, 2015

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