



## **MATERIAL FACT**

Banco Santander, S.A. discloses information in connection with the flexible compensation scheme "Santander Dividendo Elección" (*scrip dividend scheme*) to be applied to the final 2014 dividend. An informative document is enclosed for purposes of article 26.1.e) of Royal Decree 1310/2005, of 4 November (implementing Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading).

Boadilla del Monte (Madrid), April 10, 2015



**INFORMATIVE DOCUMENT**  
**CAPITAL INCREASE CHARGED TO RESERVES**

**BANCO SANTANDER, S.A.**

April 10, 2015

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**THIS DOCUMENT HAS BEEN PREPARED IN ACCORDANCE WITH ARTICLE 26.1.E) OF ROYAL DECREE 1310/2005.**

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## **1. OBJECT**

The ordinary general shareholders' meeting of Banco Santander, S.A. ("**Banco Santander**", "**Santander**" or the "**Bank**") held on March 27, 2015 resolved, under item nine A of its agenda, to increase the share capital of Banco Santander, with full charge to reserves, in an amount to be determined in accordance with the terms and conditions set out in the resolution (the "**Increase**"), delegating the execution of the Increase to the board of directors, with authority to delegate in turn to the executive committee, pursuant to article 297.1.a) of Royal Legislative Decree 1/2010, of 2 July, by means of which the consolidated Spanish Capital Corporations Law was passed ("**Spanish Capital Corporations Law**").

The executive committee of the Bank, in the meeting held on April 10, 2015, has resolved to execute the Increase in accordance with the terms and conditions set out by the ordinary general shareholders' meeting, and has fixed the overall market value of the Increase (Amount of the Alternative Option) in 2,165 million Euro, pursuant to that resolution of the general shareholders' meeting.

In accordance with article 26.1.e) of Royal Decree 1310/2005, of 4 November (implementing Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading), the preparation and publication of a prospectus related to the admission to listing of the shares issued as a consequence of the execution of the Increase will not be necessary "*provided that a document is made available containing information on the number and nature of the shares and the reasons for and details of the offer*". This informative document provides such information. This document is available at the Bank's website ([www.santander.com](http://www.santander.com)) and at the CNMV's website ([www.cnmv.es](http://www.cnmv.es))

## **2. PURPOSE OF THE INCREASE: "SANTANDER DIVIDENDO ELECCIÓN" SCHEME**

The Increase serves as an instrument for the shareholder-compensation scheme named "Santander Dividendo Elección" which shall be applied to the final 2014 dividend in April / May 2015. This scheme was implemented by the Bank for the first time in 2009 and has been applied since then with wide acceptance by shareholders. The program allows shareholders to opt between receiving newly issued Santander shares or an amount in cash broadly equivalent to the final dividend of 2014. The "Santander Dividendo Elección" scheme is similar to other programs implemented in the past by other international banks. With it, Santander's shareholders benefit from more flexibility, since they will be able to adapt their compensation to their preferences and personal situation, also benefiting from a more favourable tax treatment in case they opt to receive new shares.

"Santander Dividendo Elección" scheme works as follows. Each shareholder will receive a bonus share right for every Santander share held. These rights will be listed on and may be traded on the Spanish Stock Exchanges during a 15 calendar day period. Following the end of this period, the rights will be automatically converted into new Santander shares. Each shareholder may opt for one of the following alternatives:

- (i) Receive new Santander shares. In this case, the shareholder will receive free of charge the number of shares corresponding to the number of rights held. The delivery of shares will not be subject to Spanish withholding tax.
- (ii) Receive a cash payment broadly equivalent to the traditional final dividend. To this end, Banco Santander has assumed an irrevocable commitment to acquire the bonus share rights for a fixed price. This option will be offered only to shareholders of record as of

the date when the bonus share rights are granted (envisaged for April, 13 2015, as set out in the calendar shown in Section 3.4 below) and only with regard to the bonus share rights granted on that date. Consequently, the bonus share rights acquired on market may not be tendered in Banco Santander's offer. This option will be subject to the same tax treatment as a dividend distribution and, therefore, the amount to be paid to the shareholders will be subject to a 20% Spanish withholding tax deduction.

- (iii) Receive a cash payment through selling rights on market. Given that the rights will be listed, the shareholders may sell them on market at any time during the trading period described in section 3.5 below at the prevailing market price rather than at the guaranteed price offered by Banco Santander. The proceeds for the on market sale will not be subject to Spanish withholding tax.

Additionally, shareholders will be able to combine the above mentioned alternatives in view of their specific needs.

Shareholders who do not make an election will receive new shares unless they have previously given (in previous programs) permanent instructions as described in section 3.5 below.

### **3. DETAILS OF THE OFFER**

#### **3.1. Number of rights needed and number of shares to be issued**

Pursuant to the formulae set forth in section 2 of the general shareholders' meeting resolution, the executive committee has set the following details of the Increase:

- (i) The number of bonus share rights needed to receive a new share is 46. The shareholders of Banco Santander who appear as such in the book-entry registries of Iberclear at 23:59 on the day of publication of the announcement of the Increase in the Official Bulletin of the Commercial Registry ("*Boletín Oficial del Registro Mercantil*") (envisaged for April 13, 2015) will be allotted a bonus share right for each share of Santander held. Therefore, the aforementioned shareholders will have the right to receive a new share for each 46 old shares held on the mentioned date.

Such number of rights has been calculated as follows, considering that the number of outstanding shares of the Bank is 14,060,585,886, that the Amount of the Alternative Option is 2,165,000,000 Euros, as indicated above, and that the average market price of the Santander share in the term set out in the capital increase resolution (PreCot) is 7.076 Euros:

Num. rights =  $NTAcc / (\text{Amount Alternative Option} / \text{PreCot}) = 14,060,585,886 / (2,165,000,00 / 7.076) = 45.9550638307 = 46$  rights (rounded up to the nearest whole number).

- (ii) The number of shares to be issued is 305,664,910. Nevertheless, the actual number of shares which shall be finally issued may be lower, as it will depend on the number of rights acquired by Banco Santander under its commitment to purchase bonus share rights. Banco Santander will waive the bonus share rights it acquires by virtue of such commitment. Therefore, only the shares corresponding to the bonus share rights not acquired by Banco Santander will be issued. This number results from the following formula:

$NAN = NTAcc / Num. \text{ rights} = 14,060,585,886 / 46 = 305,664,910$  new shares (rounded down to the nearest whole number).

In order to ensure that the number of bonus share rights needed to receive a new share and the number of shares to be issued are whole numbers and not fractions, Pereda Gestión, S.A., a subsidiary of Banco Santander, has waived 26 bonus share rights, corresponding to 26 shares of Banco Santander held by it.

### **3.2. Amount of the Increase and reserve against which it will be charged**

In view of the number of shares to be issued set out above, the maximum amount of the Increase is 152,832,455 Euros. The amount by which the Bank's capital will actually be increased is dependant upon the number of shares finally issued.

The amount of the Increase will be charged against the share premium reserves, which amounted to 38,611 million Euros as of December 31, 2014.

### **3.3. Price of the commitment to purchase rights**

The gross price at which Banco Santander commits to purchase rights is 0.151 Euros per right, calculated pursuant to the formula set forth in the Increase resolution as follows:

Price of the commitment to purchase the bonus share rights =  $PreCot / (Num. \text{ of rights} + 1)$   
 $= 7.076 / (46 + 1) = 0.150553191 = 0.151$  (rounded up or down to the nearest Euro thousandth and, in case of a half Euro thousandth, rounded up to the nearest Euro thousandth).

As a result, those shareholders willing to receive their compensation in cash, will be able to sell their bonus share rights to Banco Santander at a fixed gross price of 0.151 Euros.

### **3.4. Calendar**

The envisaged calendar for the execution of the Increase is the following:

- (i) April 13, 2015. Publication of the announcement of the Increase in the Official Bulletin of the Commercial Registry ("*BORME*"). Record date for the allotment of rights (23:59 h. CET).
- (ii) April 14, 2015. Beginning of the trading period of the rights. Santander share quotes "ex-coupon".
- (iii) April 23, 2015. Last date to request compensation in cash (sale of rights to Banco Santander).
- (iv) April 28, 2015. End of the trading period of the rights. Acquisition of bonus share rights by Banco Santander from those shareholders who have requested cash broadly equivalent to the traditional final dividend.
- (v) April 29, 2015. Banco Santander waives the rights so acquired. Closing of the Increase.
- (vi) April 30 – May 7, 2015. Actions for the registration of the Increase and admission to listing of the new shares on the Spanish Stock Exchanges.
- (vii) May 4, 2015. Cash payments to those shareholders who have so requested.

(viii) May 8, 2015. Beginning of ordinary trading of new shares on the Spanish Stock Exchanges<sup>1</sup>.

### **3.5. Allotment of rights and procedure to opt for cash or new shares**

The bonus share rights will be allotted to the shareholders of Banco Santander who appear as such in the book-entry registries of Iberclear at 23:59 on the day of publication of the announcement of the Increase in the Official Bulletin of the Commercial Registry (“*Boletín Oficial del Registro Mercantil*”) (envisaged for April 13, 2015). The trading period of the rights will begin on the next business day and will have a term of fifteen calendar days (from April 14 to April 28, 2015).

During the trading period of the rights, the shareholders may opt for cash or new shares as explained above, as well as for acquiring on market bonus share rights to subscribe for new shares. However, those shareholders who wish to accept the commitment to purchase rights offered by Banco Santander and receive cash at the guaranteed price shall need to communicate their decision no later than April 23, 2015. The commitment to purchase rights is addressed only at the rights allotted free of charge to shareholders, and not to those acquired on market. To choose among the alternatives offered by the “Santander Dividendo Elección” scheme, shareholders will have to contact the entities where their Santander shares and corresponding bonus share rights are deposited. Specifically:

- (i) Shareholders whose shares are deposited at Grupo Santander. These shareholders may opt to receive, in the current program, their compensation in cash at the guaranteed fixed price offered by Banco Santander from time to time. To this end, they will have to contact their usual branch and give the relevant order. Shareholders who opted in any previous “Santander Dividendo Elección” scheme to receive cash in subsequent programs at the guaranteed price will receive their compensation in cash and no communication shall be required. In the absence of an express communication, shareholders who have not opted in previous programs to receive cash permanently will receive new shares. Grupo Santander shall not charge any fees or costs to those shareholders who opt to receive cash at the guaranteed fixed price or to receive new shares. In case of sale of the rights on market, Grupo Santander shall charge the usual fees or costs pursuant to the applicable regulations.
- (ii) Shareholders whose shares are deposited with other entities. These shareholders will have to contact the entity where their shares are deposited to make their decision. Specifically, if they want to receive cash at the fixed purchase price of Banco Santander’s commitment, they shall make their option no later than April 23, 2015. In the absence of an express communication, shareholders will receive new Santander shares<sup>2</sup>. The depositary entities may charge to shareholders fees or costs related to the allotment of shares or to the sale of rights pursuant to the applicable regulations.

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<sup>1</sup> Estimated date. Subject to the granting of the relevant authorizations. The admission to trading of the new shares on the foreign Stock Exchanges on which the shares of the Bank are traded shall also be requested.

<sup>2</sup> Special arrangements may exist for those shareholders who hold their shares through the UK nominees and in the form of ADRs – please note section 6.

The Increase is carried out free of fees and costs for shareholders in connection with the allotment of the new shares, with Banco Santander assuming the costs for the issue, subscription, placing on market, listing and other related costs.

#### **4. NATURE OF THE SHARES TO BE ISSUED**

##### **4.1. Face value, issue price and representation of shares**

The new shares to be issued in the Increase will be ordinary shares with a face value of fifty Euro cents (0.5) each, of the same class and series as those currently outstanding. The new shares will be issued at an issue price of fifty Euro cents (0.5), that is, without issuance premium, and will be represented in book-entry form, the records of which will be kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) and its participant entities.

##### **4.2. Reserves to which the shares will be charged and balance sheet used for the Increase**

The Increase is free of charge and, therefore, does not require any payment from the shareholders. As stated above, the Increase will be charged against the share premium reserves, which amounted to 38,611 million Euros as of December 31, 2014.

The balance sheet used for purposes of the Increase is that corresponding to December 31, 2014, duly audited by Deloitte, S.L. on February 24, 2015 and approved by the ordinary general shareholders' meeting on March 27, 2015 under item one A of its agenda.

##### **4.3. Shares in deposit**

Following the end of the trading period of the bonus share rights, the new shares that have not been capable of being allotted due to causes not attributable to Banco Santander will be kept in deposit and available to those who evidence lawful ownership of the relevant bonus share rights. Three years after the end of the bonus share rights trading period, the shares still pending to be allotted may be sold at the risk and expense of the interested parties in accordance with article 117 of the Spanish Capital Corporations Law. The net proceeds of the sale will be deposited in the Bank of Spain or in the General Deposit Bank (*Caja General de Depósitos*) at the disposal of the interested parties.

##### **4.4. Rights of the new shares**

The new shares will confer the same voting and economic rights upon their holders as the currently outstanding ordinary shares of Banco Santander from the date on which the capital increase is declared to be subscribed and paid up, which is envisaged to happen on April 29, 2015.

##### **4.5. Admission to listing**

The Bank will apply for the listing of the new shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Spanish Automated Quotation System (*Mercado Continuo*), and shall take the steps and actions that may be necessary with the competent bodies of the foreign Stock Exchanges on which Banco Santander shares are traded (currently Lisbon, London, Milan, Warsaw, Buenos Aires, Mexico, New York –through ADSs – American Depositary Shares– and São Paulo, through BDRs –Brazilian Depositary Receipts–) in order for the new shares issued under the Increase to be admitted to trading. Subject to the granting of the relevant authorizations, it is expected that the ordinary trading of the new shares in the Spanish Stock Exchanges will begin on May 8, 2015.

## **5. TAX REGIME**

Below there is a brief description of the tax regime currently applicable in Spain to the options available for shareholders. This description does not constitute tax advice and does not include all tax considerations that may be relevant for each shareholder in view of his particular circumstances. Therefore, shareholders are advised to consult with their tax advisors the tax regime applicable to them.

The delivery of the shares issued in the Increase will be considered for tax purposes as a delivery of fully paid-up free-of-charge shares, and therefore, shall not be considered income for purposes of Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas) (“**IRPF**”), Corporate Income Tax (Impuesto sobre Sociedades) (“**IS**”), or Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes) (“**IRNR**”), whether or not the shareholders act through a permanent establishment in Spain.

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

If the shareholders sell their bonus share rights on the market, the amount so obtained will be taxed as follows in 2015 and 2016:

- (i) For purposes of the IRPF and the IRNR without permanent establishment, the amount obtained in the sale of the bonus share rights on the market follows the same rules as those applying to pre-emptive rights. Consequently, the amount obtained in the transfer of the bonus share rights on the market reduces the acquisition value for tax purposes of the shares giving rise to such rights, by application of Section 37.1.a) of Act 35/2006, of 28 November, on IRPF.

In this way, if the amount obtained in such transfer is higher than the acquisition value of the securities from which the rights arise, the excess amount will be treated as a capital gain for the seller in tax period in which the transfer takes place.

In the case of shareholders who are individuals and residents of the Historical Territories of the Basque Country, the amount obtained for the transfer of the bonus share rights is regarded as a financial profit.

- (ii) Taxation under the IS and the IRNR with permanent establishment in Spain, to the extent that a full business cycle has been completed, will be determined in accordance with the relevant accounting rules.

In the event that the holders of the bonus share rights accept the Bank’s commitment to purchase the bonus share rights for a fixed price, the tax regime applicable to the amount obtained in the transfer to the Bank of the bonus share rights held in their capacity as shareholders will be that applicable to cash dividends and, therefore, shall be subject to withholding.

## **6. FOREIGN JURISDICTIONS WHERE BANCO SANTANDER IS LISTED**

The options, terms and procedures indicated in this informative document may not be the same as those applicable to the shareholders owning Santander shares on the different foreign stock exchanges where the Bank is listed. These shareholders are urged to consult the public announcements made and other documents published in their jurisdictions.

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**Banco Santander, S.A.**

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Ignacio Benjumea Cabeza de Vaca

Secretary General