

Santander announces a commercial action for retail customers affected by the resolution of Banco Popular

- Holders of Popular shares acquired between May 26 and June 21 2016 and certain subordinated obligations will be able to recover, if they fulfill certain conditions and limits, most of their investment.
- The initiative, which entails issuing up to EUR 980 million nominal value of loyalty bonds, is aimed at maintaining and enhancing the Bank's long term relationship with its customers.

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Banco Santander has decided to implement, despite having no legal obligation to do so, a commercial action to provide a solution to retail clients who acquired shares and/or certain subordinated obligations of Banco Popular and were affected by the bank's resolution, which was decided by the European authorities on June 6, 2017 and resulted in the loss of the value of their investment.

The plan excludes institutional investors and is directed exclusively to retail clients (individuals and companies) who acquired shares between May 26th and June 21st, 2016 and/or purchased subordinated obligations computable as Tier 2 of the July 29th 2011 and October 14th, 2011 issues (with ISIN codes ES0213790019 or ES0213790027) of Banco Popular. In both cases, the plan applies only to customers who had their investments deposited in any of the retail networks of the Popular Group or Banco Santander at the time of the resolution.

The offer will provide these customers, at no cost for them, bonds that grant them the right to receive a discretionary and non-cumulative cash coupon at a nominal annual interest rate of 1%, paid quarterly. The bonds will be perpetual obligations issued by Banco Santander, with 100 euros of par value and redeemable after 7 years, at Santander's volition, subject to European Central Bank approval. The holders of bonds will receive 100% of the loyalty bond's par value at amortization.

For the holders of shares, the maximum nominal amount to be paid will be equivalent to the investment made by each customer during the period mentioned, with certain limitations. In the case of the subordinated bonds mentioned, the amount paid will be the difference between the amount invested in these securities less the interest received from them. In both cases, investments must have remained deposited in Popular or Santander at the time of resolution and the amount recovered will be contingent on the original investment made. Those who invested up to 100,000 euros will receive the total amount of the investment; for the tranche between 100,000 and 500,000, 75% of the total; and for the tranche between 500,000 and 1,000,000, 50%. All amounts are accumulative.

The maximum nominal amount of loyalty bonds to be issued will be approximately 980 million euros.

Some 99% of Banco Popular clients and employees who bought shares between 26 May and 21 June 2016 made investments of less than 100,000 euros, meaning most of them will receive bonds for the full amount they invested.

Rodrigo Echenique, Chairman of Banco Popular and Vice Chairman of Grupo Santander said: "In recognition of the continued loyalty of those customers who invested in Banco Popular, we wanted to

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carry out this voluntary measure with the aim of reinforcing our relationship with them, serving their financial needs in the best possible way while allowing us to move ahead with the work of integration.”

Members of the Board of Directors of Banco Popular up to the time of resolution, parties related to them and shareholders who, individually or in concert, had a significant holding declared to Spain’s stock market authority (CNMV), are excluded from this plan.

The maximum cost of this loyalty initiative at the time of its granting is estimated at approximately EUR 680 million and will have no impact on the Group’s P&L nor additional capital impact, as it was already included in the adjustments of the first consolidation of Banco Popular.

Banco Santander has taken this decision given the exceptional circumstances that are involved in this case. The bank has created this plan for strictly commercial reasons, in order to foster customer loyalty, in line with the Bank’s commitment to deepen customer relationships in the long term.

Banco Santander will register shortly a prospectus of the detailed plan with the CNMV, including the terms and procedures to participate.

In order to benefit from these loyalty bonds, customers will be required to waive the right to pursue legal actions against Grupo Santander, its directors, managers and employees. Furthermore, they must maintain the same commercial relationship with the Bank as at the time the investment was made.

The transaction is subject to the register of the prospectus with the CNMV and to the approval by competition authorities of the acquisition of Banco Popular by Banco Santander.

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