

DIVIDEND DISTRIBUTION IN NEW SHARES QUESTIONS & ANSWERS FOR PARTICIPANTS IN THE SANTANDER NOMINEE SERVICE

This document contains the answers to many of the questions that you may have regarding the Dividend Distribution in new shares.

PART 1 - General

A full calendar for the dividend distribution is available at www.santandershareview.com

The distribution was approved by shareholders at the General Shareholders' Meeting on 27 October 2020.

1. What is the dividend distribution in new shares?

This is a capital increase with a charge to reserves through which Santander will issue new shares that can be received by shareholders free of charge. This distribution allows for the remuneration of €0.10 per share in the form of new shares. It is a Spanish process requirement to issue rights before distributing newly issued shares and shareholders will receive one right for each share held on the record date.

Unless you choose to instruct Equiniti to sell your rights, they will be automatically converted into new Santander shares that will be added to your existing holding in December 2020. The number of shares received will depend on the number of rights held on the record date and the Santander share price before the rights are issued. The distribution of new shares has no Spanish withholding tax liability.

As rights can be traded on the Spanish Stock Exchanges, if you want to receive cash instead of new shares, you can give an instruction to Equiniti to sell your rights. The value of the rights will fluctuate depending on market prices and there can be no guarantee of the price received. This option has no Spanish withholding tax liability, unless you are resident in Spain, but you will incur a brokerage fee of 0.3%. Shareholders choosing this option will be required to provide additional mandatory information before rights can be sold.

Any choice that you make only applies to the rights issued as part of this shares distribution.

2. Why is Santander doing this?

Santander has chosen to provide for shareholder remuneration in this way in light of the recommendations issued by the European Central Bank on 27 March and 27 July 2020, where European banks under its supervision were asked to refrain from paying dividends against the financial results for 2019 and 2020 until 1 January 2021 with the intention of preserving capital.

3. Who will receive this dividend distribution in shares?

Shareholders who are on the register on the record date when the distribution is implemented. The record date for shareholders in the Santander Nominee Service is expected to be 17 November 2020.

4. How do I participate?

The default option of new shares will be applied to your shareholding, and if you want to receive shares you don't need to do anything, and your rights will be automatically converted into new shares that will be added to your existing holding of shares.

If you want to sell your rights to receive cash, you should give an instruction online at www.santandershareview.com so that it is registered before 5 p.m. on 17 November 2020.

If you are a shareholder resident in a country outside of the EEA, your rights will be sold on market and you will receive cash instead of new shares.

The distribution is not being made through the Santander Scrip Dividend Scheme and therefore any previous election that you have made under the Santander Scrip Dividend Scheme will not be applied to this distribution.

5. Will I receive the estimated equivalent amount of €0.10 per share if I sell my rights?

If you choose to instruct us to sell your rights on market, the amount of cash that you will receive will depend upon the value of the rights on the Spanish Stock Exchanges at the time these are sold and the transaction will incur a brokerage fee of 0.3%. This option currently has no Spanish withholding tax liability unless you are resident in Spain. Selling your rights has no effect on your current balance of shares.

If you are in any doubt about the action you should take or whether further Santander shares are an appropriate or suitable investment for you, you should seek independent financial advice from your stockbroker, accountant or other appropriately authorised financial adviser.

6. Will the new shares have the same rights as my existing shares?

Yes.

7. How do I give an instruction to sell my rights?

You can give your instruction online at www.santandershareview.com. If you are already registered for a Santander Shareview portfolio, simply log-in and enter the 'My Investments' section, then click on 'View' and 'Dividend Distribution Instruction' to make your choice.

If you haven't already registered for online access to your shareholding, it's simple to do so. After registering, and when you have received your activation code through the post, just log-in and follow the directions above.

Your instruction must be received before 5 p.m. on 17 November 2020.

8. Are there any circumstances in which you will disregard my choice?

If you instruct us to sell your rights on market and do not, or have not previously provided the additional mandatory information that is required, then the default of receiving new shares will be applied to your holding.

9. How will my entitlement to new shares be calculated?

The number of shares received will depend on the number of rights held and the Santander share price at the closing of the market on 11 November 2020 (in Euro).

For information on how to calculate your entitlement to new shares, please see Part 2 of this Q&A.

10. Are there any circumstances in which I won't be issued with shares through this share distribution?

Unless we notify you otherwise, you will not be issued shares if you:

- (a) are resident in a country outside of the EEA;
- (b) give an instruction to sell your rights on market to receive cash; or
- (c) have insufficient rights to convert to at least one new share.

11. Are there any circumstances in which I won't receive cash for my rights?

Unless we inform you otherwise, you will not receive cash (except in relation to any fractional entitlements) if you do not give an instruction to sell your rights on market for this shares distribution and you are resident in the EEA.

12. I want to receive cash. Is this a better option for me than receiving new shares?

This is a decision you need to make for yourself.

If you choose to instruct us to sell your rights on market, the amount of cash that you will receive will depend upon the value of the rights on the Spanish Stock Exchanges at the time these are sold and the transaction will incur a brokerage fee of 0.3%. This option currently has no Spanish withholding tax liability, unless you are resident in Spain. Selling your rights has no effect on your current balance of shares.

Shareholders choosing the option to sell your rights on market and receive cash will be required to provide additional mandatory information before an instruction to sell rights can be accepted.

If you are in any doubt about the action you should take, or whether further Santander shares are an appropriate or suitable investment for you, you should seek independent financial advice from your stockbroker, accountant or other appropriately authorised financial adviser.

13. When will I be sent confirmation of my new shares?

You will be sent a statement confirming the transaction in December together with any fractional payment.

14. What happens if I do not have enough rights to convert to a new share?

If you do not have enough rights to convert to at least one new share, your rights will be sold on market and you will receive a cash amount (less brokerage fees of 0.3%) by cheque or in accordance with your mandate instructions.

15. What happens if I recently sold or purchased Santander shares?

It depends when you sold or purchased your shares. Shares registered in your name on the record date for the shares distribution will receive rights. You should contact the broker through whom you bought or sold the shares for clarification.

16. Can I participate even if I am resident outside the UK?

If you are currently resident outside the European Economic Area (EEA), we have taken the decision, due to local securities laws which may preclude us from allocating new shares to you, that we will sell your rights on the Spanish Stock Exchange on your behalf and you will receive the resulting cash. How much cash you will receive will depend on the value of the rights at the time of the sale as market prices do fluctuate. Please note that the sale of your rights will incur a brokerage fee of 0.3% of the value of the rights.

It is your responsibility to be informed about and observe all applicable laws and regulations in your country of residence.

If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from an appropriately authorised adviser in your country of residence.

If you change your election from cash to receive shares through Santander Shareview, your election will automatically be switched back to cash before the dividend instruction deadline.

17. Why do I get rights before I get new shares?

Santander is a Spanish company and it is a requirement of the Spanish process to issue rights before issuing new shares.

18. Why do I have to instruct Equiniti to sell rights to get cash?

It is a Spanish process requirement to issue rights before issuing new shares and, if you do not choose to instruct Equiniti to sell your rights, they will automatically be converted into new Santander shares.

19. Will I receive new shares for every dividend?

No. New shares will only be offered if Santander issues future dividend distributions as shares, either through a similar dividend distribution or when implementing the Scrip Dividend Scheme if Santander makes this scheme available in the future.

20. Will Santander issue new shares in the future?

Shareholders will be notified in advance if the bank decides to make any share distributions in the future, unless these are made through implementation of the Scrip Dividend Scheme, in which case information will be made available online at www.santandershareview.com. Any choice you have already registered for the Scrip Dividend Scheme will be retained and applied if the Scrip Dividend Scheme is implemented in the future, unless changed by you.

21. What will happen to future dividend payments?

Santander has announced its intention to implement a 100% cash dividend policy, subject to regulatory approvals and guidance as soon as market conditions return to normal.

22. I do not remember what choice I made or what default will be applied to me if Santander implements the Scrip Dividend Scheme in the future. Where can I find this information?

You will either find this information in the scrip dividend statement sent to you in November 2018 when the Scrip Dividend Scheme was last implemented, or if you call the Shareholder Helpline and provide them with your Shareholder Reference Number they can confirm the details of the current option applied to your holding.

If you want to change your Scrip election, please wait until after the Share distribution has been made in December, as we will be unable to take another instruction through Shareview until this time.

This distribution is not part of the Santander Scrip Dividend Scheme and therefore any previous election that you have made under the Santander Scrip Dividend Scheme will not be applied to this distribution.

PART 2 - Calculating your shares distribution

1. How will the Conversion Ratio for the shares distribution be calculated?

The Conversion Ratio for the dividend distribution in new shares has been calculated as follows:

$$\text{Conversion Ratio} = \frac{A}{B / C} \text{ rounded up to the nearest whole number}$$

Where:

A = the number of Santander shares in issue on the date the Board of Directors or the Executive Committee agrees to execute the capital increase;

B = the amount of money available for the dividend distribution (to be decided by the Board of Directors or the Executive Committee) and not to exceed €1,800,000,000; and shareholders for the shares distribution. The Board of Directors will determine the overall market value of the capital increase that will be made available for distribution

C = the price of a Santander share on the Spanish Stock Exchanges at close of market on 11 November 2020 prior to resolution of the Board of Directors or the Executive Committee to execute the capital increase, rounded up or down to the nearest euro thousandth.

Conversion Ratio to be used for this dividend distribution in new shares:

A = 16,618,114,582 (number of Santander shares in issue)

B = €1,700,000,000

C = €2.349 (price of the Santander share on the Spanish Stock Exchanges at close of market on 11 November 2020)

The Conversion Ratio is calculated as follows:

$$\text{Conversion Ratio} = \frac{16,618,114,582}{1,700,000,000 / 2.349} \text{ rounded up to the nearest whole number}$$

$$\text{Conversion Ratio} = 22.96232, \text{ rounded up to the nearest whole number}$$

$$\text{Conversion Ratio} = 23$$

Further information on how the Conversion Ratio is calculated can be found in the report of the Board of Directors that was submitted in connection with the shares distribution proposal at Santander's General Shareholders' Meeting held on 27 October 2020. This report is available at www.santander.com.

2. How many rights will I need to receive a new share, and how many shares will be issued in the capital increase for this distribution?

The conversion ratio for this dividend distribution in new shares is 23 rights for each new share.

3. Where will I be able to find the number of rights needed to convert to receive a new share?

The conversion ratio informative document is available online at www.santandershareview.com and was announced by Santander on 12 November 2020.

PART 3 - Giving online instructions for the Dividend Distribution in Shares

1. Can I choose to have shares/cash for part of my holding?

No. But if you have more than one holding you do not have to choose the same option for each of your holdings.

2. How many joint holders are required to give an instruction online for the Dividend Distribution in respect of a joint holding?

If the shares are held jointly, one shareholder can give an instruction online on behalf of all joint shareholders. If choosing to instruct Equiniti to sell your rights on market and receive cash you must provide the additional mandatory information required for each joint holder before the instruction can be accepted, unless this information has previously been submitted.

PART 4 - Markets in Financial Instruments Directive II (MiFID II) and the Dividend Distribution in new shares

As a result of new financial regulations, the Markets in Financial Instruments Directive II (MiFID II), we now need to collect additional information about you to be able to accept an instruction to sell your rights on market and receive cash.

The regulations require that we collect your National Client Identifier (if an individual) or Legal Entity Identifier (for a company, trust or charity). If you are a sole UK national, only your national insurance is required. Without this information we will not be able to accept an instruction to sell your rights on market.

To provide this information you will need to enter the details through your Santander Shareview Portfolio at www.santandershareview.com.

PART 5 - The Santander Dividend Re-investment Plan ("the DRIP")

1. I already receive my dividend in shares through the DRIP. What will happen to my dividend when the dividend distribution in new shares is implemented by Santander?

As Santander is not distributing cash for this distribution there will not be a re-investment through the DRIP.

2. Are you going to cancel my participation in the DRIP?

No.

3. If I don't have enough rights to acquire a whole new share, will I get shares through the DRIP?

No. Any proceeds arising from fractional entitlements will be paid to you either by cheque or directly into your nominated bank or savings account. The dividend re-investments through the DRIP are only made when Santander distributes a cash dividend.

4. How can I join the Santander Dividend Re-investment Plan?

You can get full information and download an application form for the DRIP (Santander Dividend Re-investment Plan) online at www.santandershareview.com in the Dividend Re-investment Plan section or by calling the Shareholder Helpline and asking for an application form to be sent to you.

PART 6 - Tax

1. Are there any UK tax obligations in respect of this dividend distribution in new shares?

Please see below for a summary of certain tax consequences of the dividend distribution for holders of Santander shares. It is based on current law and on what is understood to be current HM Revenue & Customs practice, in each case as at October 2020. It is not advice. It applies only to holders of Santander shares who are resident (and, in the case of individuals, domiciled) for tax purposes in the UK, who hold their Santander shares as an investment, and who are the absolute beneficial owners of their Santander shares. Special rules may apply to certain classes of shareholder, including insurance companies, collective investment schemes, individuals who are resident but not domiciled in the UK, and shareholders who have acquired (or are deemed for tax purposes to have acquired) their Santander shares by reason of an office or employment.

Shareholders who are in any doubt as to their tax position or who are resident or domiciled in, or subject to tax in, a jurisdiction other than the UK should consult their own professional advisers immediately.

Remember that your tax position depends on your own particular circumstances and may be subject to change in the future.

Option 1: Hold the rights and receive new shares

For UK tax purposes, your receipt of additional Santander shares should not give rise to taxable income or to a disposal for the purposes of taxation of chargeable gains. Spanish withholding tax will also not be deducted if you receive shares. Your new shares should be treated as part of the same asset as your existing holding of Santander shares for the purposes of taxation of chargeable gains, with any base cost in your existing Santander shares being apportioned between your existing shares and your new Santander shares.

If you receive any cash in respect of the sale of an entitlement to a fraction of a share, this receipt should be treated as a capital distribution for UK tax purposes. The amount of the capital distribution will be equal to the cash payment which you receive. The receipt of such an amount will also be treated as a disposal by you of a Spanish asset for Spanish tax purposes, giving rise to the Spanish tax reporting obligations discussed below.

The capital distribution may give rise to a liability to UK capital gains tax or (for companies) corporation tax; whether you are liable to tax will depend on your particular circumstances (including what you paid for your Santander shares), and on whether any exemptions or reliefs are available. For example, individuals are entitled to an annual exempt amount of up to (currently) £12,300 of chargeable gains in any tax year before becoming liable to pay capital gains tax.

If you purchased your Santander shares and the capital distribution is "small" for UK tax purposes, the capital distribution will not give rise to a chargeable gain or allowable loss, but will be deducted from the base cost of your Santander shares. HM Revenue & Customs treats a capital distribution as "small" if it amounts to £3,000 or less, or if it represents 5 per cent or less of the market value of your Santander shares at the time the capital distribution was made.

To the extent that the capital distribution exceeds any base cost in your Santander shares (as reduced by any previous "small" capital distributions), then the capital distribution will be treated as a part disposal of your Santander shares for UK tax purposes. As noted above, this may, depending on your particular circumstances, result in a liability to UK capital gains tax or (for companies) corporation tax.

Please note that the base cost of your Santander shares will be nil for UK tax purposes if they derive from an allocation that you received on the demutualisation of Abbey National plc or Alliance & Leicester plc.

Currently, for Spanish tax purposes, any cash which you receive in respect of a sale of an entitlement to a fraction of a share will be treated as a disposal of rights to Santander shares. As a result, Spanish withholding tax will not be deducted from the payment, but the amount obtained will be treated, for Spanish tax purposes, as a capital gain derived from a disposal of your Santander shares. In that scenario, you would be required to file a tax return with the Spanish tax authorities in order to claim, if applicable, an exemption either under the UK-Spain double tax treaty or under the Spanish Non Resident Income Tax Law from Spanish tax on the disposal, as the case may be. Further details are provided at www.santandershareview.com in the "Dividends" section.

Option 2: Sell the rights on market and receive cash

The cash payment you receive should be treated for UK tax purposes as a capital distribution rather than as dividend income. The amount of the capital distribution will be equal to the cash payment you receive. For more information on the taxation of capital distributions, please refer to paragraphs 3 and 4 of the tax summary for Option 1 above.

Currently Spanish tax law treats a disposal of rights as a disposal by you of Santander shares, and therefore Spanish withholding tax will not be deducted from your cash payment. The Spanish tax consequences of a disposal of rights to Santander shares are discussed in the penultimate paragraph of the tax summary for Option 1 above.

2. What impact will this dividend distribution in shares have on the UK tax treatment of cash dividends on my Santander shares?

None.

3. I would like to always choose to receive shares to avoid Spanish withholding tax.

If you would like to receive every dividend in shares you can join the Dividend Re-investment Plan (the DRIP) which allows you to re-invest your cash dividend in shares when Santander does not offer either a shares distribution or when the Scrip Dividend Scheme is not offered to shareholders, but you will still be subject to the deduction of Spanish withholding tax.

Unless you are resident in Spain, there is currently no Spanish withholding tax liability for the above two options, those being either to sell rights on market and receive cash, or hold rights and receive new Santander shares.

4. Why is the information provided on the shares distribution statement different to the information I get for scrip dividends with other companies?

Scrip dividend schemes offered by UK companies are automatically treated, for UK tax purposes, as if the shares issued were a normal dividend income distribution. The same is not true for shares distributions/scrip dividends paid by Spanish companies, such as Santander.

5. Why isn't this distribution treated as dividend income for UK tax purposes?

Scrip dividends (dividends paid in shares) paid by UK companies are automatically treated as dividend income for UK tax purposes. With distributions or dividends made by Spanish companies, such as Santander, the position is more complex. You can determine whether the scheme is taxed as dividend income or as a capital disposal only by looking to the Spanish company law mechanism used to implement this shares distribution. Under Spanish company law, the distribution is operated by way of issuing additional share rights, rather than through the normal mechanism for paying a dividend. For UK tax purposes, new shares issued through this distribution should therefore be treated as a capital distribution rather than a traditional cash dividend.

6. Why don't the shares I received through this dividend distribution have a value attributed to them on the statement?

This is because the new shares you receive have been converted from rights that were issued to you. As a result, the new shares are treated as if they were part of your original holding from which your entitlement to rights was determined, rather than as new shares with a fixed value.

7. Why don't I have tax deducted from the proceeds of sale of the rights on the market?

Because a disposal of rights is treated for Spanish tax purposes as if it were a disposal of a Spanish asset, giving rise to Spanish tax reporting obligations.