

**SANTANDER SCRIP DIVIDEND SCHEME
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 Santander Scrip Dividend Scheme. If you have any further questions once you've read through this document, please contact the Shareholder Helpline on 0371 384 2000 (lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday except public holidays in England and Wales). Callers from overseas should contact +44 (0) 121 415 7188.

PART 1

General

1. What is a Scrip Dividend Scheme?

A scrip dividend allows shareholders to choose to receive, in exchange for their rights and otherwise free of charge, new shares issued by a company instead of a fixed cash amount.

When the Santander Scrip Dividend Scheme is made available to shareholders, Santander will offer shareholders the option to choose to receive new shares or a cash amount.

The Scheme was last implemented in November 2018.

2. How does the Santander Scrip Dividend Scheme work?

When a scrip dividend scheme is offered, shareholders have the option to choose to receive an amount broadly equivalent to the dividend, in either cash or Santander shares. Shareholders who receive new shares have these added to their existing shareholding.

When Santander intends to implement a scrip dividend information will be published at www.santandershareview.com.

It is a Spanish process requirement to issue rights before scrip shares and, if you do not sell your rights they will be converted into new Santander shares. Accordingly, under the Scheme shareholders who hold their shares through the Santander Nominee Service will have the following options when the Scheme is implemented:

Option 1: To hold their rights and receive new shares

Shareholders can receive, in exchange for their rights and otherwise free of charge, a certain number of newly issued Santander shares to which they are entitled. The number of shares received will depend on the number of rights held and on the Santander share price on or around the record date for the dividend in respect of which the Scrip Dividend is being implemented. This option has no Spanish withholding tax liability, unless you are resident in Spain.

Option 2: To sell their rights on the open market and receive cash

Shareholders can sell their rights on market (through the Spanish Stock Exchanges) and receive cash. The value of the rights will fluctuate depending on market prices and, accordingly, 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.

Option 3: To sell their rights off market to Santander and receive a fixed amount of cash

Shareholders can sell their rights off market to Santander at a fixed price, leaving you broadly in the same position as if Santander had paid a cash dividend in the usual way. This option has the same Spanish withholding tax treatment as a normal dividend paid in cash (tax withheld at 19%).

Please note that we will not be selling your existing shares and that the Scrip Dividend Scheme does not apply to the normal cash dividends. Any choice that you make only applies to the rights issued to you through the Scheme.

3. Who can participate in the Santander Scrip Dividend Scheme?

Shareholders who are on the register on the record date when the Scrip Dividend Scheme is implemented. The record date will be posted online at www.santandershareview.com when available.

4. How do I participate in the Santander Scrip Dividend Scheme?

The action you need to take depends on your circumstances:

Unless we have informed you otherwise, if you have previously registered a choice in respect of the Scrip Dividend Scheme, this has been kept on record, and will be applied to any future Scrip Dividend Schemes unless changed by you. If you want to continue with your previous choice, and we have not informed you of any change, you don't need to do anything. Otherwise, you should make an election online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post your instruction must be received before 5 p.m. on the Election Date for the scrip dividend for which you would like to choose a different option.

If you have not previously registered a choice and you are resident in a country in the EEA, the default option of receive shares will be applied to your shareholding. If you want to receive shares you don't need to do anything. Otherwise, you should make an election online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post your instruction must be received before 5 p.m. on the Election Date for the scrip dividend for which you would like to choose a different option.

If you have not previously registered a choice and you are a shareholder resident in a country outside of the EEA, the default option of sell your rights off market and receive cash will be applied to your shareholding. If you want to receive cash this way you don't need to do anything. Otherwise, you should make an election online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post your instruction must be received before 5 p.m. the Election Date for the scrip dividend for which you would like to choose a different option.

Special rules apply in relation to certain shareholders who, as at 22 February 2013, were deceased or classified as "gone-away" shareholders. Further details about how these shareholders are treated is set out on page 14 of the Santander Scrip Dividend Scheme Information Booklet which can be found online at www.santandershareview.com.

5. Will I receive a lower cash dividend under this scheme?

If you choose to receive cash, the amount that you will receive will depend upon whether you choose to sell your rights on market or off market.

If you choose to sell your rights on market (Option 2) the amount of cash that you will receive will depend upon the value of the rights on the Spanish Stock Exchanges, and may be higher or lower than the amount that you would have received had you received your dividend in the usual way. This option currently has no Spanish withholding tax liability, unless you are resident in Spain, but you will incur a brokerage fee of 0.3%.

However, if you choose for your rights to be sold off market to Santander (Option 3) the amount that you will receive will be broadly equivalent to the amount of the dividend had you received it in the usual way and will be subject to the deduction of 19% Spanish withholding tax.

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 my new shares have the same rights as my existing shares?

Yes.

7. What are the benefits of the Scrip Dividend Scheme?

The benefits of the Scrip Dividend Scheme depend upon the personal circumstances of each individual shareholder, although when implemented the scheme offers flexibility to and enables shareholders to choose according to their personal situation.

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.

8. I want to continue to receive a fixed amount of cash – what do I do?

The action you need to take depends on whether you have previously registered a choice in respect of the Scrip Dividend Scheme.

If the default option applied to your shareholding is for your rights to be sold off market and receive cash, you don't need to do anything. Otherwise, you should make an election online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post, your instruction must be received before 5 p.m. on the Election Date for the scrip dividend for which you would like to choose a different option.

9. I do not remember what choice I made or what default will be applied to me in the Scrip Dividend Scheme. Where can I find out this information?

You can find this information either by calling the Shareholder Helpline and providing them with your Shareholder Reference Number, or if you have registered for online access to a Santander Shareview portfolio account, you can also view the current option applied to your shareholding.

10. How do I make my choice online?

You can change your choice online at www.santandershareview.com. If you are already registered, simply log-in and enter the 'My Investments' section, then click on 'View' and 'Dividend Election' 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 if you haven't already received an activation code, when you have received your activation code through the post, just log-in and follow the directions above.

Your election must be received before 5 p.m. on the Election Date for the scrip dividend for which you would like to choose a different option. Please note that only the most recent choice received by the Santander Nominee Service by the Election Date for a particular scrip dividend will be applied and that all previously submitted choices received will be ignored.

11. Can I change my choice and, if so, how?

Yes, you can change your choice at any time online at www.santandershareview.com, as explained above, or by completing a scrip dividend mandate form, which you can obtain by calling the Shareholder Helpline or downloading from www.santandershareview.com. Please note that you must update your choice online or return the form so it is received by the Santander Nominee Service by no later than 5 p.m. on the Election Date for the scrip dividend for which you would like to choose a different option.

12. Can I change my mind once Santander publishes the Conversion Ratio and Purchase Price?

Yes, you can change your existing choice online at www.santandershareview.com, or by completing a scrip dividend mandate form, as long as you ensure that any new choice that you make reaches the Santander Nominee Service by no later than 5 p.m. on the Election Date for that particular scrip dividend.

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

If the choice that you make is not clear on the form that you complete or if your form is not validly completed, the form will be disregarded. In addition, if you have previously selected Option 2, and have not provided the additional mandatory information that is now required, then the appropriate default option will be applied to your holding.

14. How do you work out my entitlement to shares in the Scrip Dividend Scheme?

The number of shares received will depend on the number of rights held and the Santander share price on or around the Record Date when a Scrip Dividend is implemented.

The examples on pages 7 to 9 of the updated Santander Scrip Dividend Scheme Information Booklet, which can be found online at www.santandershareview.com, may be of assistance in helping you work out your entitlement.

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

15. Are there any circumstances in which I won't be issued shares under the Scrip Dividend Scheme?

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

- (a) have made a choice to receive cash for a previous scrip dividend and that choice has not been changed;
- (b) are resident in a country outside of the EEA and have not registered a choice to receive shares for a previous scrip dividend;
- (c) make a new choice to receive cash; or
- (d) have insufficient rights to acquire a share.

If you fall into categories (a), (b) or (c) above and wish to receive shares, you need to make a choice online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post your instruction must be received before 5 p.m. on the Election Date for the scrip dividend for which you want to choose a different option.

Special rules apply in relation to certain shareholders who, as at 22 February 2013, were deceased or classified as "gone-away" shareholders. Further detail about how these shareholders were treated is set out on page 14 of the Santander Scrip Dividend Scheme Information Booklet which can be found online at www.santandershareview.com.

16. Are there any circumstances in which I won't receive cash through the Scrip Dividend Scheme?

Unless we inform you otherwise, you will not receive cash (except in relation to any fractional entitlements) if you:

- (a) have not made a choice to receive cash for a previous scrip dividend and you are resident in the EEA;
- (b) received shares for the previous scrip dividend.

If you fall into categories (a) or (b) above and wish to receive cash, you need to make a choice online at www.santandershareview.com or return a scrip dividend mandate form to the Santander Nominee Service. Whether you make a choice online or by post your instruction must be received before 5 p.m. on the Election Date for the scrip dividend for which you want to choose a different option.

17. I want to receive cash. Is it better for me to sell on market or to sell off market to Santander?

This is a decision you need to make for yourself.

The difference between the two cash options is that if you choose to sell your rights off market and receive a fixed amount of cash, the distribution will be subject to the 19% deduction of Spanish withholding tax. By choosing to sell your rights on market the amount of cash you will receive will depend upon the value of the rights on the Spanish Stock Exchanges and although Spanish withholding tax does not currently apply to this option, unless you are resident in Spain, there will be a deduction of 0.3% for brokerage fees. Shareholders choosing the option to sell your rights on market and receive cash will be required to provide additional mandatory information before an instruction for this option 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.

18. If I choose to receive shares, when will I be sent confirmation of my new shares?

Whenever the Scrip Dividend Scheme is implemented, you will be sent a statement confirming the transaction. This will usually be sent to you by the end of the month in which the dividend was distributed, together with any fractional payment.

19. What happens if I don't have enough rights to acquire a new scrip share?

If you have chosen to receive shares and you do not have enough rights to acquire a 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.

20. 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 a scrip dividend, will receive rights. You should contact the broker through whom you bought or sold the shares for clarification.

If you recently purchased shares and they have been added to your existing Santander shareholding, the choice that you make/have made or the default that is applied in respect of that shareholding will be applied to your new shares.

However, if you have recently purchased shares and they are registered as a separate shareholding, any choice that you have made or default that is applied in respect of your existing Santander shareholding will not apply to this new, separate, shareholding. In this case, you will have to make an election either online at www.santandershareview.com, or by returning a scrip dividend mandate form to the Santander Nominee Service if you do not want the relevant default to be applied to these shares. Any election (whether online or by post) must be received before 5 p.m. on the Election Date for the scrip dividend for which you want to make a different choice.

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

Subject to Santander's shareholders approving the relevant scrip dividend scheme, if you are resident in a country outside the UK you may treat it as an invitation to receive new shares if such an invitation could lawfully be made to you in the jurisdiction in which you reside without compliance, either by you, Santander, or Equiniti Financial Services Limited (as nominee), with any registration or other legal or regulatory requirements. If it could not, you must elect to receive cash (less Spanish withholding tax) under Option 3 (sell your rights off market and receive a fixed amount of cash). It is your responsibility to inform yourself about and ensure compliance with all applicable laws and regulations in your country of residence.

Shareholders resident in certain jurisdictions will not be able to receive any information on the scrip dividend scheme due to local securities laws. Shareholders in these jurisdictions will have Option 3 (sell your rights off market and receive a fixed amount of cash) applied as the default option to their shareholding.

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

22. Why do I get rights before I get scrip shares?

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

23. Why do I have to sell rights to continue to get a cash dividend?

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

24. Will I receive new shares for every dividend if I choose to receive shares through the Scrip Dividend Scheme?

No. New shares will only be offered under the Scrip Dividend Scheme if Santander makes this scheme available.

If you have not joined the DRIP:

If you would like to receive shares for those dividends when Santander does not offer the Scrip Dividend Scheme you are able to join the Dividend Re-investment Plan (the DRIP). More information is available online at www.santandershareview.com in the Dividend Re-investment Plan section.

If you have already joined the DRIP:

If you have chosen to retain the default to receive shares under the Scrip Dividend Scheme, you will only receive new shares free of Spanish withholding tax whenever a Scrip Dividend Scheme is put in place by Santander. However, if you have joined the Dividend Re-investment Plan then the cash dividends you receive will be re-invested into Santander shares when a Scrip Dividend Scheme is not offered by Santander.

25. Will Santander offer a scrip dividend alternative for future dividends?

Santander will publish details of which dividends the scrip dividend is being offered for online at www.santander.com, and information will also be made available at www.santandershareview.com on the Scrip Dividend page. Please note that under Spanish law, a scrip dividend must be approved by shareholders every year.

26. Do I need to complete a new scrip dividend mandate form every time Santander offers a scrip dividend?

No. Unless we inform you otherwise, any choice that you have previously made will be kept on record and, unless changed by you, will generally be applied to your shareholding in relation to any future scrip dividend schemes. You are advised to check your dividend options viewable in your online Shareview Portfolio to ensure that this reflects the choice you would like to be applied when a Scrip Dividend is implemented.

PART 2

Calculating your Scrip Dividend

1. How will the Conversion Ratio be calculated?

The Conversion Ratio will be calculated as follows:

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

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 average price of a Santander share on the Spanish Stock Exchanges in the five business days prior to the resolution of the Board of Directors or the Executive Committee to execute the capital increase, rounded up or down to the nearest euro thousandth; and

C = the amount of money available for distribution to all Santander shareholders for the scrip dividend. The Board of Directors will determine the amount of money that will be made available for distribution.

Example:

Purely for illustrative purposes, this example shows how the Conversion Ratio was calculated for the November 2017 Santander Scrip Dividend Scheme:

- A = 16,040,573,446 (which was the number of Santander shares in issue as at 17 October 2017)
- B = €5.664 (which was the average market price of a Santander share on the Spanish Stock Exchanges in the 5 business days prior to the resolution of the Board of Directors to execute the capital increase, rounded up or down to the nearest euro thousandth)
- C = € 640,000,000 (which was the maximum amount of money made available for distribution)

The Conversion Ratio was then calculated as follows:

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

$$\text{Conversion Ratio} = \frac{16,040,573,446 \times 5.664}{640,000,000}, \text{ rounded up to the nearest whole number}$$

$$\text{Conversion Ratio} = 141.95907, \text{ rounded up to the nearest whole number}$$

$$\text{Conversion Ratio} = 142$$

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 scrip dividend proposal at Santander's most recent general meeting. This report is available at www.santander.com.

2. How do you calculate the Purchase Price?

The Purchase Price will be calculated as follows:

$$\text{Purchase Price} = \frac{B}{\text{Conversion Ratio} + 1}, \text{ rounded up or down to the nearest euro thousandth}$$

Where:

- B = the average price of a Santander share on the Spanish Stock Exchanges in the five business days prior to the resolution of the Board of Directors or the Executive Committee to execute the capital increase, rounded up or down to the nearest euro thousandth.

Example:

Purely for illustrative purposes, this example shows how the Purchase Price was calculated for the November 2017 Scrip Dividend Scheme:

Conversion Ratio = 142 (as calculated in question 1 above); and

B = €5.664 (which was the average market price of a Santander share on the Spanish Stock Exchanges in the 5 business days prior to the resolution of the Board of Directors or the Executive Committee to execute the capital increase, rounded up or down to the nearest euro thousandth)

The Purchase Price was then calculated as follows:

Purchase Price = $\frac{B}{\text{Conversion Ratio} + 1}$, rounded up or down to the nearest euro thousandth

Purchase Price = $\frac{€5.664}{142 + 1}$, rounded up or down to the nearest euro thousandth

Purchase Price = €0.04

Further information on how the Purchase Price is calculated can be found in the report of the Board of Directors that was submitted in connection with the scrip dividend proposal at Santander's most recent general meeting. This report is available at www.santander.com.

3. What will the scrip Conversion Ratio/Purchase Price be?

These will be calculated as described in questions 1 and 2 above. They will be announced by Santander each time a scrip dividend is implemented and will be posted online at www.santandershareview.com when available.

4. Where will I be able to find the scrip Conversion Ratio/Purchase Price?

The Conversion Ratio and Purchase Price will be made available online at www.santandershareview.com and will be announced through a Regulatory News Service by Santander each time a scrip dividend is implemented.

PART 3

The Scrip Dividend Mandate Form

1. Can I choose a scrip dividend option for part of my holding?

No. Your choice applies to all of your holding. If you have more than one holding you must choose an option for each of your holdings. You do not have to choose the same option for each of your holdings.

2. How many joint holders are required to sign a scrip dividend mandate form in respect of a joint holding?

If the shares are held jointly, all shareholders must sign a form. Additionally, if choosing the option to sell your rights on market and receive cash (Option 2), all joint holders must also provide the additional mandatory information required before the instruction can be accepted.

3. Can I change my scrip dividend choice?

Yes, you can change the choice you made on your scrip dividend mandate, either online at www.santandershareview.com, or by calling the Shareholder Helpline to ask for a scrip dividend mandate form to be sent to you, and returning it to the Santander Nominee Service so that it is received by 5 p.m. on the Election Date for the scrip dividend for which you would like choose a different option.

PART 4

Markets in Financial Instruments Directive II (MiFID II) and Santander Scrip Dividend Scheme

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 (Option 2).

The regulations require that we collect your National Client Identifier (if an individual) or Legal Entity Identifier (for a company, trust or charity). 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 complete a new Scrip Dividend mandate form, or enter the details through your Santander Shareview Portfolio at www.santandershareview.com

If you had given an instruction to sell your rights on market and receive cash (Option 2) before July 2018, we previously sent you details of the action that you needed to take to continue with this choice through the Scrip Dividend Scheme. If you have not submitted a new instruction for this option and provided the additional mandatory information your instruction will have been revoked and the appropriate default option will be applied to your holding.

PART 5

The Santander Dividend Re-investment Plan (“the DRIP”)

Section A - 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 scrip dividend alternative is offered by Santander?

This will depend on what option you have registered for the Scrip Dividend Scheme. Unless you are registered to receive shares (Option 1) through the Scrip Dividend Scheme you will receive cash according to the choice that you have made or the default applied to you.

2. I have joined the DRIP, do I need to complete a scrip dividend mandate form?

The action you need to take depends on whether you want to receive shares or cash through the Scrip Dividend Scheme. If you have not registered a choice to receive cash in respect of a previous scrip dividend, you will receive shares. You will only need to complete a scrip dividend mandate form if you want to receive cash.

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

No. The only change which applies is that the dividend re-investment through the DRIP will be suspended for each dividend or part of a dividend payment for which the Scrip Dividend Scheme is being offered to shareholders.

4. If I don't have enough rights to acquire a whole scrip 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. Dividend re-investments through the DRIP are suspended whenever Santander offers a scrip dividend for a dividend or part of a dividend distribution.

5. 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, or you can make a choice online through your Santander Shareview portfolio.

PART 6

Tax

1. Are there any UK tax obligations in respect of the Santander Scrip Dividend Scheme?

Please see below for a summary of certain tax consequences of the Scrip Dividend Scheme 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 May 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.

The Spanish tax authorities are considering whether changes in taxation of Spanish legal persons and/or non-Spanish resident taxpayers acting through a permanent establishment in Spain should apply in the context of scrip dividends. Should any changes eventually apply and affect holders of Santander shares to which this section it refers, it will be updated and made available at www.santandershareview.com. You are encouraged to check periodically for any updates.

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.

The Spanish tax consequences of a disposal of rights changed on 1 January 2017. For details of Spanish tax consequences up to 31 December 2016, please see Question 10 of this 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 Option 2 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.

Option 3: Sell the rights off market to Santander and receive a fixed amount of cash

Spanish company law treats the Santander Scrip Dividend Scheme as an increase in Santander's share capital, rather than as a dividend paid by Santander. As a result of the Spanish company law treatment, the cash payment you receive should generally 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 sum of the cash payment you receive and the Spanish withholding tax deducted from the payment.

For more information on the taxation of capital distributions, please refer to paragraphs 3 and 4 of the tax summary for Option 1 above.

Spanish withholding tax will be deducted from the cash payment at a rate of 19%. If you are liable to pay UK capital gains tax or corporation tax on the cash receipt, you should generally be able to credit approximately 52.6% of the Spanish withholding tax against your UK tax liability. However, the credit cannot reduce your UK tax liability on the payment below zero. Depending on your circumstances, you may be able to claim a full or partial refund of the Spanish withholding tax from the Spanish tax authorities; further details are provided at www.santandershareview.com in the "Dividends" section.

2. What impact will the Scrip Dividend Scheme 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 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 two of the three options offered through the Scrip Dividend Scheme, those being either sell rights on market and receive cash, or hold rights and receive new Santander shares.

4. Why don't I get the Spanish withholding tax exemption if I opt to sell my rights to Santander rather than in the open market?

Under Spanish law selling rights back to the company doesn't remove the withholding tax obligation but nor does it attract possible Spanish capital gains tax from the sale.

5. Why is the information provided on the Scrip Dividend Scheme 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 scrip dividends paid by Spanish companies, such as Santander.

6. Why isn't the Scrip Dividend Scheme treated as dividend income for UK tax purposes?

Scrip dividends paid by UK companies are automatically treated as dividend income for UK tax purposes. With scrip dividends paid 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 the scrip dividend scheme. Under Spanish company law, the Santander Scrip Dividend Scheme is operated by way of issuing additional share rights, rather than through the normal mechanism for paying a dividend. For UK tax purposes, scrip dividends paid under the scheme should therefore be treated as a capital distribution rather than a traditional cash dividend.

7. Why is the Santander Scrip Dividend different from other UK scrip dividends?

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 scrip dividends paid by Spanish companies, such as Santander. You then have to look to the local company law mechanism used to implement the scrip dividend scheme, which in this case should mean that the Santander scrip dividends are taxed as capital distributions rather than as traditional cash dividends.

8. Why don't the shares I receive through the Santander Scrip Dividend Scheme have a value attributed to them on the dividend statement?

This is because the shares you receive have been converted from rights that were issued to you through the Scheme. 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.

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

Because of the way the Scheme operates, 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.

10. What were the Spanish tax consequences of a disposal of rights under the Scrip Dividend Scheme before the Spanish tax law changes which came into effect on 1 January 2017?

Up to 31 December 2016, for Spanish tax purposes, any cash which you received in respect of a sale of an entitlement to a fraction of a share was treated as a disposal of rights to Santander shares. As a result, Spanish withholding tax was not deducted from the payment, but the amount obtained correspondingly reduced the Spanish tax base cost of your Santander shares from which the entitlement rights sold derived. If the amount obtained exceeded the Spanish tax base cost of your Santander shares, then the excess was treated, for Spanish tax purposes, as a capital gain derived from a disposal of your Santander shares. In that scenario, you would have been 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 have been.

Your Spanish tax base cost in your Santander shares would have generally been equal to the price which you paid to acquire your Santander shares, less any cash which you have previously received in respect of a sale of your scrip dividend rights (or fractional entitlements) on market in earlier scrip

dividends. If you acquired Santander shares on the takeover of Abbey National plc or Alliance & Leicester plc, your Spanish base cost in the Santander shares will generally be equal to the market value of your Santander shares at the time the relevant takeover became effective, less any cash which you have previously received in respect of a sale of your scrip dividend rights (or fractional entitlements) on market in earlier scrip dividends.

APPENDIX 1 – Changes to the Scrip Dividend Scheme effective from March 2013

1. What was changed?

The default option we applied to certain shareholders changed in March 2013 and was implemented for the first time in relation to the May 2013 scrip dividend. Details of this change were included in a scrip dividend notification issued to those shareholders who were affected.

In summary, the changes made in March 2013 mean that if you were a shareholder resident in a country in the European Economic Area, and you had not previously returned a scrip dividend mandate form by post or made an election online and did not have an SSA, the default option applied to your shareholding was to receive shares. Unless we inform you otherwise, this default option will be applied to any future scrip dividends that might be implemented by Santander, unless changed by you.

If you had previously returned a scrip dividend mandate form by post, made an election online or have an SSA (or otherwise do not fall into the category of shareholders described above), then no change was made to the default option applicable to your shareholding.

2. Why did some shareholders not have the global default option of ‘receive shares’ applied to their holding?

Where, as at 22 February 2013, we were unable to communicate with certain shareholders or their legal representatives, no previous choice had been registered and no SSA was registered against such shareholding, the default of sell rights off market and receive cash will be applied until such time as contact is re-established and a choice can be made.

This only affected:

- (i) the representatives of deceased shareholders where we had not been provided with details of the associated grant of probate as at 22 February 2013, and
- (ii) “gone-away” shareholders

Further details of which shareholders this applies to is set out on page 14 of the latest version of the Santander Scrip Dividend Scheme Information Booklet which can also be found online at www.santandershareview.com.

In addition, due to securities regulations in certain jurisdictions, the default option applicable to shareholders who have not made a previous election and are resident outside of the European Economic Area will be for their rights to be sold off market and receive cash.

This is consistent with the treatment of other Santander shareholders.