

**ORDINARY GENERAL SHAREHOLDERS' MEETING**  
**OF BANCO SANTANDER, S.A. – OCTOBER 2020**

**Item One.-**           **Application of results obtained during financial year 2019.**

RATIONALE SUBMITTED BY THE BOARD OF DIRECTORS OF BANCO SANTANDER, S.A. REGARDING THE PROPOSAL REFERRED TO IN ITEM ONE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 26 OCTOBER 2020, ON FIRST CALL, AND FOR 27 OCTOBER 2020, ON SECOND CALL

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This rationale is submitted in compliance with the provisions of section 40.6.bis of Royal Decree-Law 8/2020 of 17 March on urgent extraordinary measures to address the economic and social impact of COVID-19, and is intended to report on the reasons why the board of directors of Banco Santander, S.A. ("**Banco Santander**" or the "**Bank**") has chosen to replace the proposed application of results contained in the notes to the annual accounts corresponding to financial year 2019, which were already approved by the shareholders at the general shareholders' meeting held on 3 April 2020, with the proposed application of results that is submitted for approval by the shareholders under item One on the agenda.

The notes to the Bank's annual accounts for financial year 2019 included a proposed application of results that contemplated the use of an amount of up to 1,761,520,145.69 euros to pay a portion of the 2019 final dividend and the acquisition of bonus share rights that were to be provided to the shareholders through the *Santander Dividendo Elección* scrip dividend scheme within the framework of the dividend policy for 2019.

On 27 February 2020 the board of directors resolved to submit the above-described application of results to the shareholders at the general shareholders' meeting called to be held on 2 April 2020, on first call, and 3 April 2020, on second call, under item Two on the agenda (*Application of results obtained during Financial Year 2019*).

However, on 27 March 2020 the European Central Bank (ECB) issued a recommendation in which it asked all European credit institutions under its supervision to refrain, at least until 1 October 2020, from paying out dividends with a charge to the results from financial years 2019 and 2020 or to make irrevocable commitments to pay out them, in order to preserve capital ("**Recommendation I**").

Taking into account Recommendation I and in line with the Bank's mission to help people and businesses prosper, on 2 April 2020 the board of directors thus decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, resolving to this

end, among other issues, to withdraw from the agenda for said general meeting the proposal corresponding to item Two (*Application of results obtained during Financial Year 2019*), deferring the decision on the application of results obtained by the Bank during financial year 2019 to a meeting to be held no later than 31 October 2020. The Bank reported all of the above through the corresponding notice of inside information (*información privilegiada*) addressed to the CNMV on that same 2 April 2020 and at the general shareholders' meeting held on 3 April 2020, at which it expressly warned that the proposed application of results submitted at the next meeting might differ from the one initially submitted.

Subsequently, on 27 July 2020, the ECB issued a second recommendation to all European credit institutions under its supervision extending the effects of Recommendation I and asking them to refrain, until 1 January 2021, from paying out dividends from the results for financial years 2019 and 2020 or from entering into irrevocable commitments to pay out them ("**Recommendation II**").

In compliance with Recommendation II, the board of directors has resolved to replace the initial proposed application of results with the one being submitted for approval by the shareholders under item One on the agenda, which provides for allocating the entirety of the Bank's results for financial year 2019 to increase the Voluntary Reserve, except for the amount used for payment of the dividend paid prior to the date of the ordinary general meeting and the issuance of Recommendation I.

Despite the fact that, as announced on 23 March 2020, the Bank meets the capital requirements and the board of directors is comfortable with its capital buffers over regulatory requirements, Recommendation I and Recommendation II are considered to be extremely significant, given the strength and authority of the ECB's recommendations. This means that it is now appropriate to amend the proposed application of results obtained by the Bank in financial year 2019 and to apply the entire amount of the results pending application to increasing the Bank's Voluntary Reserve.

Proposal:

To approve the application of results in the amount of 3,530,216,306.15 euros obtained by the Bank in financial year 2019, to be distributed as follows:

Euros 1,661,811,458.20 to the payment of the dividend already paid prior to the date of the ordinary General Meeting.

Euros 1,868,404,847.95 to increase the Voluntary Reserve.