Offering Circular dated 29 April 2016

BANKINTER, S.A.

(incorporated with limited liability under the laws of Spain)

Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities

Issue Price: 100 per cent.

The €200,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 liquidation preference each (the **Preferred Securities**) are being issued by Bankinter, S.A. (the **Bank**, the **Issuer** or **Bankinter**) on 10 May 2016 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Group**.

The Preferred Securities will accrue non-cumulative cash distributions (**Distributions**) as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 10 May 2021 (the **First Reset Date**), at the rate of 8.625 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Period**), at the rate per annum, calculated on an annual basis and then converted to a quarterly rate in accordance with market convention, equal to the aggregate of 8.867 per cent. per annum (the **Initial Margin**) and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Preferred Securities (the **Conditions**)) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrear on 10 February, 10 May, 10 August and 10 November, in each year (each a **Distribution Payment Date**). In respect of the period from (and including) the Closing Date to (but excluding) 10 August 2016 (the **First Distribution Payment Date**), the Distribution payable in respect of each Preferred Security will be €4312.50 per Liquidation Preference.

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time as further provided in Condition 3.3. Without prejudice to the right of the Bank to cancel the payments of any Distribution: (a) payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items (as defined in the Conditions) of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (b) if the Regulator (as defined in the Conditions) requires the Bank to cancel the relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (c) no payments will be made on the Preferred Securities if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations (as defined in the Conditions); and (d) if the Trigger Event (as defined in the Conditions) occurs at any time on or after the Closing Date (as defined in the Conditions), the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.

The Preferred Securities are perpetual. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, at the liquidation preference of €200,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the **Redemption Price**). The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions). Subject, in each case, to the prior consent of the Regulator (as defined in the Conditions) and otherwise in accordance with Applicable Banking Regulations (as defined in the Conditions) then in force.

In the event of the occurrence of the Trigger Event (as defined in the Conditions) (i.e. if at any time the CET1 ratio (as defined in the Conditions) of the Group falls below 5.125 per cent.), the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank (Ordinary Shares) at the Conversion Price (as defined in the Conditions).

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, Holders will be entitled to receive (subject to the limitations described in the Conditions), in respect of each Preferred Security, their respective liquidation preference of €200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution (as defined in the Conditions).

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

The Preferred Securities are expected, upon issue, to be assigned a Ba3 rating by Moody's Investors Service Limited (**Moody's**). Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Preferred Securities may not be offered or sold in Spain other than by institutions authorised under the Spanish Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley de Mercado de Valores aprobado por el Real Decreto*

***Legislativo 4/2015, de 23 de octubre*) as amended (the Spanish Securities Market Law) and related legislation, and Royal Decree 217/2008 of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el Régimen Jurídico de las empresas de servicios de inversión y de las demás entidades que prestan servicios de inversión*), to provide investment services in Spain, and in compliance with the provisions of the Spanish Securities Market Law and any other applicable legislation, provided that offers of the Preferred Securities shall not be directed specifically at or made to investors located in Spain.**

The Preferred Securities are not intended to be sold and should not be sold to retail clients in any jurisdiction of the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time, the PI Instrument) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 4, 5 and 6 of this Offering Circular for further information.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 8.

This Offering Circular does not comprise a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended. Application has been made to the Irish Stock Exchange Plc (the **Irish Stock Exchange**) for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange.

The Preferred Securities and any Ordinary Shares to be issued and delivered in the event of the occurrence of the Trigger Event have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and are subject to United States tax law requirements. The Preferred Securities are being offered outside the United States in accordance with Regulation S under the Securities Act (**Regulation S**), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Joint Lead Managers

BofA Merrill Lynch	**Bankinter Securities SV, SA.**	**J.P. Morgan**

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Offering Circular and declares that, having made all reasonable enquires and having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Offering Circular is to be read in conjunction with all documents which have been incorporated by reference herein (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or Merrill Lynch International, J.P. Morgan Securities plc and Bankinter Securities SV, SA. (together, the **Joint Lead Managers**).

None of the Joint Lead Managers has separately verified the information contained or incorporated by reference in this Offering Circular. None of the Joint Lead Managers nor any of their respective affiliates has authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Preferred Security shall in any circumstances create any implication that there has been no change in the affairs of the Issuer, or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) of the Issuer, since the date of this Offering Circular or that any other information supplied in connection with the Preferred Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of the Joint Lead Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained or incorporated by reference in this Offering Circular or any other information supplied by the Issuer in connection with the Preferred Securities. Neither this Offering Circular nor any such information or financial statements of the Issuer are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Offering Circular or such information or financial statements should purchase the Preferred Securities. Each potential purchaser of Preferred Securities should determine for itself the relevance of the information contained or incorporated by reference in this Offering Circular and its purchase of Preferred Securities should be based upon such investigation as it deems necessary. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Preferred Securities of any information coming to the attention of the Joint Lead Managers.

The Joint Lead Managers are acting exclusively for the Bank and no one else in connection with any offering of the Preferred Securities. The Joint Lead Managers will not regard any other person (whether a recipient of this Offering Circular or otherwise) as their client in relation to any such offering and will not be responsible to anyone other than the Bank for providing the protections

afforded to their clients or for giving advice in relation to such offering or any transaction or arrangement referred to herein.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Preferred Securities.

The distribution of this Offering Circular and the offering, sale and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

In particular, the Preferred Securities and the Ordinary Shares have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Preferred Securities may not be offered, sold or delivered within the United States or to U.S. persons.

In this Offering Circular, unless otherwise specified, references to a "Member State" are references to a Member State of the European Economic Area, references to "U.S." are to United States dollars, references to "€", "EUR" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Words and expressions defined in the Conditions (see "*Conditions of the Preferred Securities*") shall have the same meanings when used elsewhere in this Offering Circular unless otherwise specified.

Potential investors are advised to exercise caution in relation to any offering of the Preferred Securities. If a potential investor is in any doubt about any of the contents of this Offering Circular, it should obtain independent professional advice. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular or incorporated by reference herein. A potential investor should not invest in the Preferred Securities unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the Preferred Securities will perform under changing conditions, the resulting effects on the value of the Preferred Securities and the impact this investment will have on the potential investor's overall investment portfolio. See further "*Risk Factors – Risks relating to the holding of Preferred Securities generally – The Preferred Securities may not be a suitable investment for all investors*".

Restrictions on marketing and sales to retail investors

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the **PI Instrument**). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the **PI Rules**):

(i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Preferred Securities, must not be sold to retail clients in the EEA; and

(ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

Each of the Bank and the Joint Lead Managers is required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Preferred Securities (or a beneficial interest in such Preferred Securities) from the Issuer and/or the Joint Lead Managers (acting as Joint Lead Managers), each prospective investor will be deemed to represent, warrant, agree with, and undertake to the Issuer and each of the Joint Lead Managers that:

(a) it is not a retail client in any jurisdiction of the EEA (as defined in the PI Rules);

(b) whether or not it is subject to the PI Rules, it will not:

(i) sell or offer the Preferred Securities to retail clients in any jurisdiction of the EEA; or

(ii) communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in any jurisdiction of the EEA (in each case within the meaning of the PI Rules),

in any such case other than (i) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Preferred Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Preferred Securities (or such beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**) to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Preferred Securities (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Preferred Securities (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers (acting as Joint Lead Managers), the foregoing representations,

warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

FINANCIAL INFORMATION

The following principles should be noted in reviewing the financial information contained in this Offering Circular:

- Unless otherwise stated, any reference to loans refers to both loans and advances.
- Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received in the period in which they are due.
- Financial information with respect to subsidiaries may not reflect consolidation adjustments.
- Certain numerical information in this Offering Circular may not sum due to rounding adjustments. In addition, information regarding period-to-period changes is based on figures which have not been rounded; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

STABILISATION

In connection with the issue of the Preferred Securities, Merrill Lynch International (the **Stabilisation Manager**) (or any person acting on behalf of the Stabilisation Manager) may, to the extent permitted by applicable laws and directives, over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities.

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RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations under the Preferred Securities. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

The Bank believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the non-payment by the Bank of any distributions, liquidation preferences or other amounts on or in connection with the Preferred Securities may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Preferred Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined in "Conditions of the Preferred Securities" below or elsewhere in this Offering Circular have the same meanings in this "Risk Factors" section.

Generic risks relating to the banking activities of the Group

Credit risk

Credit risk can be defined as possible losses which may be generated by a potential default in whole or in part of the obligations by a counterparty or debtor. These obligations arise in both the financial activities of the Bank and its dealing and investment activities since they arise by means of loans, fixed interest or equity securities, derivative instruments or other types of products. A default by a counterparty or debtor affects the Bank's business and financial results. Such a default may arise in a number of sectors where the Bank is active as an investor and as a lender.

The Bank routinely transacts with counterparties and debtors in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems, and could lead to losses or defaults by other institutions. Credit risk may also be manifested as country risk where difficulties may arise in the country where the exposure is domiciled, thus impeding or reducing the value of assets. These liquidity concerns have had, and may continue to have, a negative effect on inter-institutional financial transactions in general. Many of the routine transactions the Bank enters into expose it to significant credit risk in the event of default by one of the Bank's significant counterparties.

Despite the risk control measures it has in place, a default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Although the Group regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions that the Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, collateral and security provided to the Group may be insufficient to cover the exposure or others' obligations to the Group.

Adverse changes in the credit quality of the Bank's borrowers and counterparties could affect the recoverability and value of the Bank's assets and require an increase in provisions for bad and doubtful debts and other provisions.

Market turmoil and economic weakness, especially in Spain, could have a material adverse effect on the liquidity, business and financial conditions of the Group's clients, which could in turn impair its loan portfolio. Although the Group caters to a range of different customers, one of the business segments on which it focuses is small and medium-sized enterprises (**SMEs**) in Spain. SMEs are particularly sensitive to adverse developments in the economy, rendering the Group's lending activities relatively riskier than if it lent primarily to higher-income customers.

In addition, if economic growth weakens, the unemployment rate increases or interest rates increase sharply, the creditworthiness of the Group's customers may deteriorate.

A weakening in customers' and counterparties creditworthiness' could impact the Group's capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its risk-weighted assets (**RWA**), in accordance with the CRD IV Directive (as defined below and as implemented in Spain by Law 10/2014, Royal Decree 84/2015 and Bank of Spain Circular 2/2016) and the CRR (as defined below). The RWA consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of its assets, which include its lending portfolio. If the creditworthiness of a customer or a counterparty declines, the Group would lower their rating, which would result in an increase in its RWA, which potentially could deteriorate the Group's capital adequacy ratios and limit its lending or investments in other operations.

Market risk

The Bank is exposed to market risk as a consequence of the Bank's trading activities in financial markets and through the asset and liability management of its overall financial position. Therefore, the Bank is exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices. If the Bank were to suffer substantial losses due to any such market volatility, it would adversely affect the Bank's results of operations, financial performance or financial condition.

Interest rate risk

The Bank's results of operations depend upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond the Bank's control, including deregulation of the financial sectors in the markets in which the Bank operates, monetary policies pursued by national governments, domestic and international economic and political conditions and other factors.

Changes in market interest rates, including cases of negative reference rates, can affect the interest rates that the Group receives on its interest-earning assets differently to the rates that it pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income the Group receives, which could have a material adverse effect on its results of operations.

In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates. A rise in interest rates could reduce the demand for credit and the Group's ability to generate credit for its clients, as well as contribute to an increase in the credit default rate.

In 2015, lower interest rates, as compared to historic levels, were common in Europe and North America. Although the monetary policy applied by the central banks in these regions is supportive, there is a low risk of inflation in the major developed countries, and indeed exist some fears of possible deflation. In Europe, the European Central Bank has been applying a highly accommodative monetary policy: since the March 2016 it has held the key interest rate at 0.0 per cent. and the deposit rate at -0.4 per cent. Low or negative interest rates impact the business of the Bank as described above and also may impact the underlying economy which in turn may impact the Bank's business.

Liquidity risk

Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover its obligations to customers, meet the maturity of its liabilities and to satisfy capital requirements. It includes both the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able to meet its payment obligations on time at a reasonable price due to liquidity pressures.

The Bank actively monitors the liquidity situation and its projection as well as actions to be taken both in normal market conditions and in exceptional situations arising from internal causes or market trends. The Bank has various tools for analysing and monitoring the short and long-term liquidity situation. However, these tools may not be sufficient to monitor liquidity risk and the Bank's inability to access funding at acceptable rates is likely to impact its results adversely.

Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the European Central Bank (**ECB**) extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures.

Exchange rate risk

The exchange rate risk consists of the potential losses which may occur as a result of adverse movements in exchange rates in respect of the different currencies in which the Group operates. An adverse movement in exchange rates will therefore impact the Group's results.

Operational risk

Operational risk includes, among others, the following:

(a) the business risk which may result from unforeseeable changes in external factors without sufficient time to make the structural changes necessary to adapt to them, and the risk that unforeseeable events occur which could lead to losses for the Group;

(b) transactional risks resulting from errors in execution, registration failure, deriving from the complexity of certain products, errors in delivery and/or liquidation and/or human error;

(c) risks in operational controls which include losses resulting from potential errors in transaction documentation, in obtaining the appropriate authorisations, fraud, lack of personnel training, failure to comply with limits or procedures laid down, failure of internal controls or unavailability of personnel;

(d) risks of the geographical concentration on the Group's activities in the Spanish market;

(e) losses resulting from material loss and damage as well as extreme events, for example natural disasters;

(f) data processing risks, such as programming errors, systems failure and application design errors;

(g) legal risks, including the possibility that transactions may not be legally enforceable in the existing legal and/or regulatory framework, and also that change in law and regulations may negatively affect the situation of the Group; and

(h) mis-selling of products which may result in, inter alia, lawsuits from clients and fines from the relevant regulator.

Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in its systems, processes or security could have a material adverse effect on its business, financial condition and results of operations.

To the extent that any of these risks materialises, the same may impact the Group's ability to carry out its business, lead to a reduction in customer trust and satisfaction and/or impact its results adversely.

Macroeconomic risks

Continuing economic tensions in Spain and the European Union generally, including as a result of the on-going European sovereign debt crisis, could have a material adverse effect on the Group's business, financial condition and results of operations

Although the Group operates primarily in Spain, the evolution of the situation in the European Union (**EU**) is important, given its impact on liquidity and conditions of financing.

The crisis in worldwide financial and credit markets led to a global economic slowdown, with many economies around the world showing significant signs of weakness or slow growth. Although in Europe there has been a significant reduction in risk premiums since the second half of 2012 and economic growth for the Eurozone as a whole has been positive since the second quarter of 2013, growing by 1.5 per cent. in 2015, the possibility of future deterioration of the European economy as a whole or for the individual countries remains a risk. Any such deterioration could adversely affect the cost and availability of funding for Spanish and European banks, including the Bank and its Group, and the quality of its loan portfolio, and require the Group to take impairments on its exposures to credit portfolios and the sovereign debt of one or more countries in the Eurozone or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects. In addition, the process the Group uses to estimate losses inherent in its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of its borrowers to repay their loans. The degree of uncertainty concerning

economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, affect the reliability of the process and the sufficiency of the Group's loan loss provisions.

There is also a potential risk that one or more countries may leave the Eurozone, either voluntarily or involuntarily (such as the United Kingdom and Greece), which has raised concerns about the on-going viability of the euro currency and the European Monetary Union (the **EMU**). These concerns have been further exacerbated by the rise of Euro-scepticism in certain EU countries, including countries that decided not to enter the EMU such as the United Kingdom. This growing Euro-scepticism in certain EU countries could pose additional difficulties for the EU's ability to react to the on-going economic crisis.

The recent significant reductions in risk premiums and improved access to funding have not entirely addressed concerns about Spain in the context of the sovereign debt crisis and health of the Spanish banking sector. The prospect of a renewed contraction of the Spanish economy could lead the Spanish government to consider requesting financial assistance from the ECB. Any such financial assistance could impose austerity measures and other restrictions on the Spanish government, including enhanced requirements directed towards Spanish banking institutions, which could make it difficult for Spain to generate revenues and such events would raise additional concerns regarding its ability to service its sovereign debt. Any such restrictions, including additional capital requirements applicable to Spanish banking institutions, could also materially affect the Bank's financial condition. Furthermore, any such austerity measures could adversely affect the Spanish economy and reduce the capacity of the Bank's Spanish borrowers to repay loans made to them, increasing the Bank's non-performing loans (**NPLs**).

Economic conditions in Spain and the European Union, despite recent improvements in certain segments of the global economy (including, to a lesser extent, the Eurozone), remain uncertain and may deteriorate in the future, which could adversely affect the cost and availability of funding for Spanish and European banks, including the Group and the quality of the Group's loan and investment securities portfolios and levels of deposits and profitability, require the Group to take impairments on its exposures to the sovereign debt of one or more countries in the Eurozone or otherwise adversely affect the Group's business, financial condition and results of operations.

The Group is exposed to sovereign risk and may be affected by a downgrade of Spain's credit rating

As at 31 December 2015, the nominal exposure of the Group to sovereign debt amounted to €3,621.2 million, which included €1,411.2 million of 'available-for-sale assets' and €2,210 million of 'held-to-maturity investments' and the Kingdom of Spain accounting for 94 per cent. of this exposure.

Furthermore, since the Bank is a Spanish credit institution with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. Any decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a decline in the Bank's credit ratings.

In addition, any decline in the Kingdom of Spain's credit ratings could also adversely affect the value of the Kingdom of Spain's and other Spanish banks' respective securities held by the Group in various portfolios or otherwise materially adversely affect the Group's business, financial condition and results of operations. The counterparties to many of the Group's loan agreements could be similarly affected by any decline in the Kingdom of Spain's credit rating, which could limit their ability to raise additional capital or otherwise adversely affect their ability to repay their outstanding commitments to

the Group and, in turn, materially and adversely affect the Group's business, financial condition and results of operations.

The Bank's business is substantially dependent on the Spanish economy

The Group has historically developed its lending business in Spain, which continues to be its main place of business. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. After rapid economic growth until 2007, Spanish gross domestic product (**GDP**) contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (with GDP growth of 3.2 per cent. in 2015) and the public deficit is diminishing, real or perceived difficulties in servicing public or private debt could increase Spain's financing costs. In addition, unemployment levels continue to be high and a change in the current recovery of the labour market would adversely affect households' gross disposable income. Recently, the International Monetary Fund has reviewed the expected growth of the Spanish economy and has projected an increase of its GDP by 2.6 per cent. in 2016, while the Bank of Spain expects a growing rate of the GDP of 2.7 per cent..

The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports. Accordingly, an interruption in the recovery in the Eurozone might have an adverse effect on Spanish economic growth. Given the relevance of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy could have a material adverse effect on the Group's business, financial condition and results of operations.

Exposure to the Spanish real estate market makes the Bank vulnerable to developments in this market

The Group has substantial exposure to the real estate market, mainly in Spain. The Group is exposed to the real estate market due to the fact that real estate assets secure many of its outstanding loans and due to the significant amount of real estate assets held on its balance sheet. Any deterioration of real estate prices could materially and adversely affect the Group's business, financial condition and results of operations.

Legal, regulatory and compliance risks

The Group is subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a material adverse effect on its business, results of operations and financial condition

The financial services industry is among the most highly regulated industries in the world. The Group's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the European Union and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector (that is expected to continue for the foreseeable future) and a changing regulatory framework which is likely to undergo further significant developments. This creates significant uncertainty for the Group and the financial industry in general. The wide range of recent actions or current proposals at a regulatory level includes, among other things, provisions for more stringent regulatory capital and

liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures. As a result, the Group may be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability.

The regulations which most significantly affect the Group include, among others, regulations relating to capital requirements or provisions, as described below. In addition, the Group is subject to substantial regulation relating to other matters such as liquidity. The Group cannot predict if increased liquidity standards, if implemented, could require the Group to maintain a greater proportion of its assets in highly liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. The Group is also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still on-going. In addition, since some of these laws and regulations have been adopted recently, the manner in which they are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

The Group is subject to the supervision and/or regulation of the Bank of Spain (*Banco de España*), the ECB, the Spanish Market Securities Commission (*Comisión Nacional del Mercado de Valores*) (the **CNMV**) and the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*) (the **DGSFP**). The operations of the Group outside of Spain are subject to direct oversight by the local regulators in those jurisdictions. Regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the Group's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation. In addition, many of the operations of the Group are dependent upon licences issued by financial authorities. Regulatory and supervisory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been steadily increasing during recent years. Regulation may be imposed on a case by case basis by governments and regulators in response to a crisis.

Any required changes to the Group's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit the Group's ability to pursue business opportunities in which the Group might otherwise consider engaging, affect the value of assets that the Group holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional costs on the Group or otherwise adversely affect the Group's business. Moreover, the regulators of the Group, as part of their supervisory function, periodically review the Group's allowances for loan losses. Those regulators may require the Group, inter alia, to: (i) increase such allowances to recognise further losses; (ii) increase the regulatory risk-weighting of assets; (iii) increase its "combined buffer requirement"; or (iv) increase "Pillar 2" requirements. Any such measures, as required by these regulatory agencies, whose views may differ from those of the

management of the Group, could have an adverse effect on its earnings and financial condition, including on the Group's common equity tier 1 ratio and on its ability to pay distributions.

Additionally, a new solvency framework for insurance and reinsurance companies operating in the European Union, referred to as "Solvency II" has entered into force, as of 1 January 2016, and it is currently being developed.

The establishment of this new solvency framework started with the adoption of the European Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance of 25 November 2009, as amended by Directive 2013/58/EU of 11 December and by Directive 2014/51/EU of 16 April (the **Solvency II Directive**).

The Solvency II Directive has been implemented in Spain through Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance undertakings (*Ley 20/2015, de 14 de julio, de ordenación supervision y solvencia de las entidades aseguradoras y reaseguradoras*) and Royal Decree 1060/2015, of 2 December on the regulation, supervision and solvency of insurance and reinsurance undertakings (*Real Decreto 1060/2015, de 20 de noviembre, de ordenación, supervision y solvencia de las entidades aseguradoras y reaseguradoras*).

The insurance business has a significant importance within the Group. The changes introduced by this recent regulation may have an impact on the capital and liquidity requirements of the insurance business of the Group. Given the recent entry into force of the Solvency II regime and how regulators (including the DGSFP) will interpret it, it is difficult to calculate its precise impact of such regime on the Group. As the Group implements the new regulation it might affect how the Group performs its insurance business activities and also have an adverse effect on the Group's business operations, its performance or its financial position.

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Group's business, results of operations and financial condition.

Increasingly onerous capital requirements may have a material adverse effect on the Group's business, financial condition and results of operations

As a Spanish credit institution, the Group is subject to Directive 2013/36/EU, of 26 June, of the European Parliament on access to credit institution and investment firm activities and on prudential supervision of credit institutions and investment firms (the **CRD IV Directive**) that replaced Directives 2006/48 and 2006/49 through which the EU began implementing the Basel III capital reforms, with effect from 1 January 2014, with certain requirements in the process of being phased in until 1 January 2019. The core regulation regarding the solvency of credit entities is Regulation (EU) No. 575/2013, of 26 June, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the **CRR**, and together with the CRD IV Directive and any CRD IV Implementing Measures, **CRD IV**), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of the CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013 of 29 November, Law 10/2014, Royal Decree 84/2015 of 13 February (**Royal Decree 84/2015**), Bank of Spain Circular 2/2014 of 31 January and Bank of Spain Circular 2/2016 of 2 February (the **Bank of Spain Circular 2/2016**).

The new regulatory regime has, among other things, established minimum "Pillar 1" capital requirements and increased the level of capital required by means of a "combined buffer requirement" that entities must comply with from 2016 onwards. The "combined buffer requirement" has introduced five new capital buffers: (i) the capital conservation buffer; (ii) the global systemically important institutions buffer (the **G-SIB buffer**); (iii) the institution-specific countercyclical buffer; (iv) the other systemically important institutions buffer (the **D-SIB buffer**); and (v) the systemic risk buffer. The "combined buffer requirement" applies in addition to the minimum "Pillar 1" capital requirements and is required to be satisfied with common equity tier 1 (**CET1**) capital.

While the capital conservation buffer and the G-SIB buffer are mandatory, the Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the D-SIB buffer and the buffer for other systemic risks (to prevent systemic or macro-prudential risks). With the entry into force of the Single Supervisory Mechanism (the **SSM**) on 4 November 2014, the ECB also has the ability to provide certain recommendations in this respect. The Group has not been classified as G-SIB by the Financial Stability Board (the **FSB**) nor by the Bank of Spain so, unless otherwise indicated by the FSB or by the Bank of Spain in the future, the Group will not be required to maintain this G-SIB buffer. Likewise, the Group has not been considered by the Bank of Spain to be a D-SIB in 2016 so, the Group will not be required to maintain a D-SIB buffer during this period.

The Bank of Spain agreed in March 2016 to set the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the second quarter of 2016. The percentages will be revised each quarter.

Some or all of the other buffers may also apply to the Group from time to time as determined by the Bank of Spain, the ECB or any other competent authority.

Moreover, Article 104 of the CRD IV Directive, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No. 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the **SSM Regulation**), also contemplates that, in addition to the minimum "Pillar 1" capital requirements, supervisory authorities may impose further "Pillar 2" capital requirements to cover other risks, including those not considered to be fully captured by the minimum "own funds" "Pillar 1" requirements under CRD IV or to address macro-prudential considerations.

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Group within the SSM. The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the **SREP**) at least on an annual basis.

In addition to the above, the European Banking Authority (the **EBA**) published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in this were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional "Pillar 2" own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the "Pillar 2" requirements to cover certain specified risks of at least 56 per cent. CET1 capital and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the "combined buffer requirement" and/or additional macro-prudential requirements.

In this regard it is worth mentioning that on 23 March 2016, in the context of the ECB's presentation of the Annual Report on supervisory activities for 2015, the ECB anticipated that, in 2016, the SREP will be further refined on the basis of the ongoing discussions including, inter alia, the European Commission's internal discussion paper on "Pillar 2" capital requirements and "Pillar 2" capital guidance and automatic restrictions on earnings distribution (the **Commission Internal Discussion Paper**) and the SSM SREP Methodology Booklet (the **SREP Booklet**). In accordance with the Commission Internal Discussion Paper and the SREP Booklet, the informal "Pillar 2" capital guidance may be provided by competent authorities if they suspect that an institution may not be able to meet its capital requirements at all times. Such guidance may involve recommendations to have additional capital, a request for a credible capital plan, the imposition of other supervisory measures or a stepping-up of supervisory monitoring and competent authorities may, nevertheless, transform them into "Pillar 2" capital requirements.

Any additional "Pillar 2" own funds requirement that may be imposed on the Group by the ECB pursuant to the SREP will require the Group to hold capital levels above the minimum "Pillar 1" capital requirements and the "combined buffer requirement".

As a result of the most recent SREP carried out by the ECB in 2015, the Bank was informed by the ECB that it is required to maintain a CET1 phased in capital ratio of 8.75 per cent. (on a consolidated basis). This CET1 capital ratio of 8.75 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.) and the additional own funds requirement under "Pillar 2" and the capital conservation buffer (together 4.25 per cent.) (the capital conservation buffer will be 0.625 per cent. phased in 2016 and 2.5 per cent. fully loaded).

As of 31 December 2015, the Group's CET1 phased in capital ratio was 11.77 per cent. on a consolidated basis. Such ratio exceeds the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements ("Pillar 1" plus "Pillar 2" plus "combined buffer requirement") imposed on the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional own funds requirements on the Group.

Any failure by the Group to maintain its "Pillar 1" minimum regulatory capital ratios, any "Pillar 2" additional own funds requirements and/or any "combined buffer requirement" could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the "Pillar 2" framework or any other capital requirements to which the Bank and/or the Group is or becomes subject (including the "combined buffer requirement") may result in the imposition of restrictions or prohibitions on "discretionary payments" by the Bank as discussed below and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

According to Article 48 of Law 10/2014, Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, an entity that is not meeting its "combined buffer requirement" is required to determine its Maximum Distributable Amount (i.e. to calculate the "distributable profits" of that entity in accordance with CRD IV and multiply the amount of those "distributable profits" by a factor dependent on the extent of the entity's shortfall in CET1 capital, which is then the Maximum Distributable Amount of the entity). Until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain, the relevant entity will be subject to restrictions on (i)

distributions relating to CET1 capital, (ii) payments in respect of variable remuneration or discretionary pension revenues and (iii) distributions relating to Additional Tier 1 instruments (**discretionary payments**) and, thereafter, any such discretionary payments by that entity will be subject to such Maximum Distributable Amount. Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014 aimed at strengthening own funds or limiting or prohibiting the distribution of dividends, respectively, will also restrict discretionary payments to such Maximum Distributable Amount.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015 (the **December 2015 EBA Opinion**), in the EBA's opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution. In addition, the December 2015 EBA Opinion advises the European Commission (i) to review Article 141 of the CRD IV Directive with a view to avoiding differing interpretations of Article 141(6) and ensure greater consistency between the maximum distributable amount framework and the capital stacking order described in the opinion and in the EBA SREP Guidelines and (ii) to review the prohibition on distributions in all circumstances where an institution fails to meet the "combined buffer requirement" and no profits are made in any given year, notably insofar as it relates to Additional Tier 1 instruments (as defined in the Conditions). In line with the approach recommended in the December 2015 EBA Opinion, the ECB published a presentation on its SREP methodology on 19 February 2016 (the **SREP Booklet**) in which it outlined that only CET1 capital in excess of that used to meet an institution's "Pillar 1" and "Pillar 2" CET1 capital requirements will be taken into account for determining the "maximum distributable amount". Further, in March 2016, it was widely reported that, in the context of its wider review of the CRR and CRD IV, an expert group of the European Commission was considering, among other things, clarifications to the operation of automatic restrictions on earnings distributions such that if an institution meets the sum of its "Pillar 1" capital requirements, "Pillar 2" capital requirements and combined buffer requirements, but does not meet its "Pillar 2" capital guidance, it shall not be subject to such automatic restrictions (including on payments of interest on Additional Tier 1 capital). In accordance with such expert group considerations, the informal "Pillar 2" capital guidance may be provided by competent authorities if they suspect that an institution may not be able to meet its capital requirements at all times. Such guidance may involve: recommendations to have additional capital, request for a credible capital plan, imposition of other supervisory measures or a stepping-up of supervisory monitoring and competent authorities may, nevertheless, transform them in "Pillar 2" capital requirements. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements.

The ECB has also set out in its recommendation of 17 December 2015 on dividend distribution policies, that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements.

See further "−*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions*

on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions" below.

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further "Pillar 2" requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of 18 June on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de Recuperación y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión*) (**Law 11/2015**), which, together with Royal Decree 1012/2015 of 6 November (**Royal Decree 1012/2015**), has implemented Directive 2014/59/EU of 15 May establishing a framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**) into Spanish law.

At its meeting of 12 January 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from 1 January 2015. There will be a mandatory minimum capital requirement on 1 January, 2018, with an initial minimum leverage ratio of 3 per cent. that can be raised after calibration, if European authorities so decide. Although based on publicly available information the Group believes it has a strong position of RWAs/total assets and leverage ratio in relation to its European peer group, there can be no assurance that such position is not adversely affected as a result of potential legal changes.

There can be no assurance that the implementation of the above capital requirements as well as any final and restrictive interpretation thereof or changes in the current law will not adversely affect the Bank's ability to pay Distributions on the Preferred Securities or result in the cancellation of such Distributions (in whole or in part), or require the Bank to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Group's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

As further described in the section headed "*Capital Adequacy*" of this Offering Circular, the Bank has been waived from the application of prudential requirements on an individual basis under Article 7 of the CRR (the **Solo Waiver**). However, there can be no assurance that the Bank will continue to satisfy the conditions to maintain the Solo Waiver in the future. If the Solo Waiver ceases to be in place, the Bank will be required to maintain the above capital requirements on an individual basis and this could have adverse effects on the Bank's business, financial condition and results of operations. See "*A Capital Event may occur if the Bank loses its ability to calculate and keep its capital requirements at a Group level only and the Bank may therefore elect to redeem the Preferred Securities*"

In 2014, the ECB and the EBA conducted a comprehensive assessment of the European banking sector. See "*Regulatory developments related to the EU banking and fiscal union may have a material impact on the Bank*". The process involved an asset quality review (**AQR**) and a raft of stress tests on the position of European banks at 31 December 2013. EBA recommended that banks should exceed an 8 per cent. CET1 (phase in) in the baseline scenario and a 5.5 per cent. CET1 (phase in) in an adverse scenario. Since then, further AQRs and stress tests have been carried out on European banks. It is worth mentioning that, to date, the Bank has passed these stress tests and has followed and implemented all pertinent recommendations.

The Bank cannot provide assurance that it will not be subject to recommendations from future AQRs and stress tests or similar regulatory exercises which could have an impact on its current asset valuation policies, the classification of some of its exposures or cause other relevant effects.

Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities

The liquidity coverage ratio (**LCR**) is a quantitative liquidity standard developed by the Basel Committee on Banking Supervision (**BCBS**) to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and, since January 2015, is being phased in until 2019. Currently, the banks to which this standard applies must comply with a minimum LCR requirement of 60 per cent. and gradually increase the ratio by 10 percentage points per year to reach 100 per cent. by January 2019.

The BCBS's net stable funding ratio (**NSFR**) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplates that the NSFR, including any revisions, will be implemented by member countries as a minimum standard by 1 January 2018, with no phase in scheduled.

Various elements of the LCR and the NSFR, as they are implemented by national banking regulators and complied with by the Bank, may cause changes that affect the profitability of business activities and require changes to certain business practices, which could expose the Bank to additional costs (including increased compliance costs) or have a material adverse effect on the Bank's business, financial condition or results of operations. These changes may also cause the Bank to invest significant management attention and resources to make any necessary changes.

Contributions for assisting in the future recovery and resolution of the Spanish banking sector may have a material adverse effect on the Bank's business, financial condition and results of operations

Law 11/2015 and Royal Decree 1012/2015 have established a requirement for banks, including the Bank, to make at least an annual contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*) by member institutions. The total amount of contributions to be made to the National Resolution Fund by all Spanish banking entities must equal 1 per cent. of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund by 31 December 2024. The contribution is adjusted to the risk profile of each institution in accordance with the criteria set out in Royal Decree 1012/2015 and in the Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. In addition, the *Fondo de Reestructuración Ordenada Bancaria* (the **FROB**) may request extraordinary contributions. Law 11/2015 has also established an additional charge (*tasa*) which shall be used to further fund the activities of the FROB as resolution authority, which charge (*tasa*) shall equal 2.5 per cent. of the above annual contribution to be made to the National Resolution Fund. The Bank may need to make contributions to the EU Single Resolution Fund, once the National Resolution Fund has been integrated into it, and will have to pay supervisory fees to the SSM. Any levies, taxes or funding

requirements imposed on the Bank in any of the jurisdictions where it operates could have a material adverse effect on the Bank′s business, financial condition and results of operations.

Regulatory developments related to the EU banking and fiscal union may have a material impact on the Bank

The project of achieving a European banking union was launched in the summer of 2012. Its main goal is to resume progress towards the European single market for financial services by restoring confidence in the European banking sector and ensuring the proper functioning of monetary policy in the Eurozone.

Banking union is expected to be achieved through new harmonised banking rules (the single rulebook) and a new institutional framework with stronger systems for both banking supervision and resolution that will be managed at the European level. Its two main pillars are the SSM and the Single Resolution Mechanism (**SRM**).

The SSM is intended to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the largest European banks (including the Bank), on 4 November 2014.

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The new supervisor is one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that are part of the SSM. Several steps have already been taken in this regard such as the publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. Regulation (EU) No. 806/2014 of the European Parliament and the Council of the European Union (the **SRM Regulation**), which was passed on 15 July 2014 and took legal effect from 1 January 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms, in the framework of the SRM and the Single Resolution Fund. The new Single Resolution Board started operating from 1 January 2015 and fully assumed its resolution powers on 1 January 2016. The Single Resolution Fund has also been in place since 1 January 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

By allowing for the consistent application of EU banking rules through the SSM, the banking union is expected to help resume momentum towards economic and monetary union. In order to complete such union, a single deposit guarantee scheme is still needed which may require a change to the existing European treaties. This is the subject of continued negotiation by European leaders to ensure further progress is made in European fiscal, economic and political integration.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Group's main supervisory authority may have a material effect on the Group's business, financial condition and results of operations. In particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes were published in the Official Journal of the EU on 12 June 2014. The BRRD was implemented into Spanish law through Law 11/2015 and Royal Decree 1012/2015.

In addition, on 29 January 2014, the European Commission released its proposal on the structural reforms of the European banking sector that will impose new constraints on the structure of European banks. The proposal is aimed at ensuring the harmonisation between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd Frank Act (also known as the Volcker Rule), and a mechanism to potentially require the separation of trading activities (including market making), such as in the Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

There can be no assurance that regulatory developments related to the EU fiscal and banking union, and initiatives taken at EU level, will not have a material adverse effect on the Bank's business, financial condition and results of operations.

Impact of financial transaction taxes

On 14 February 2013, the European Commission published its proposal (the **Commission's Proposal**) for a Council Directive implementing enhanced cooperation in the area of a financial transaction tax (**FTT**), which was intended to take effect on 1 January 2014 but negotiations are still on-going. The proposed Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the financial crisis and creating a level playing field with other sectors from a taxation point of view. A joint statement issued in May 2014 by ten of the eleven participating member states indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives from 1 January 2016, although the FTT proposal has not yet been introduced and still remains subject to negotiation between those states and the scope of any such tax is uncertain. A further deadline of June 2016 has been set to reach consensus, though there is still real uncertainty over the prospects of the FTT.

Under the Commission's Proposal (as defined above) the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Preferred Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

On 4 July 2014, Royal Decree-Law 8/2014, of 4 July was introduced in Spain setting forth a tax rate of 0.03 per cent. on bank deposits in Spain. Such tax was established in 2013 (but previously with a 0 per cent. rate) and is payable annually by Spanish banks. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates. Any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Compliance with anti-money laundering and anti-terrorism financing rules involves significant cost and effort

Group companies are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although the Group believes that its current policies and procedures are sufficient to comply with applicable rules and regulations, it cannot guarantee that its Group-wide anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Failure to comply may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations.

The Group is exposed to risk of loss from legal and regulatory proceedings

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, and conduct by companies in which the Group holds strategic investments or joint venture partners, which could increase the number of litigation claims and the amount of damages asserted against the Group or subject the Group to regulatory enforcement actions, fines and penalties.

The Bank's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position

The preparation of financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union (the **EU-IFRS**) requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect, then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse effect on the Group's business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

The further development of standards and interpretations under EU-IFRS could also significantly affect the results of operations, financial condition and prospects of the Group.

Specific risks affecting the Group's business

The financial problems faced by the Group's customers could adversely affect the Group

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Continued market turmoil and economic recession, including in Spain, could materially and adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn increase the Group's own NPL ratios, impair the Group's loan and other financial assets and result in decreased demand for borrowings in general. In the context of the uneven global recovery from the recent market turmoil and economic recession, and the possibility of continued economic contraction in continental Europe combined with continued high unemployment and low consumer spending, the value of assets collateralising the Group's secured loans, including homes and other real estate, could decline significantly, possibly resulting in the impairment of the value of the Group's loan assets. In addition, the Group's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Group's fee and commission income and, consequently, the revenues of its portfolio management, private banking and asset custody business. Any of the conditions described above could have a material adverse effect on the Group's business, financial condition and results of operations.

Highly indebted households and corporations could endanger the Group's asset quality and future revenues

Spanish households and businesses have reached, in recent years, a high level of indebtedness, which represents increased risk for the Spanish banking system. In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to upward movements in interest rates. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on the Group's loan portfolio and, as a result, on its financial condition and results of operations. Moreover, the increase in households' and businesses' indebtedness also limits their ability to incur additional debt, decreasing the number of new products the Group may otherwise be able to sell them and limiting the Group's ability to attract new customers in Spain satisfying its credit standards, which could have an adverse effect on the Group's ability to achieve its growth plans.

The Group depends in part upon dividends and other funds from subsidiaries

Some of the Group’s operations are conducted through its financial services subsidiaries. As a result, the Bank’s ability to pay dividends, to the extent the Bank decides to do so, depends in part on the ability of the Group’s subsidiaries to generate earnings and to pay dividends to the Bank. Payment of dividends, distributions and advances by the Group’s subsidiaries will be contingent upon their earnings and business considerations and is or may be limited by legal, regulatory and contractual restrictions. Additionally, the Bank’s right to receive any assets of any of the Group’s subsidiaries as an equity holder of such subsidiaries upon their liquidation or reorganisation, will be effectively subordinated to the claims of the subsidiaries’ creditors, including trade creditors.

The Group may generate lower revenues from brokerage and other commission- and fee-based businesses

Market downturns have led to declines in the volume of transactions that the Group executes for its customers and to declines in the Group's non-interest revenues. In addition, because the fees that the

Group charges for managing its clients' portfolios are in many cases based on the value or performance of those portfolios which have reduced in value and which have been subject to an increased amount of withdrawals, the revenues the Group receives from its asset management and private banking and custody businesses have been reduced.

In addition to the effects of the market downturn, below-market performance by the Group's mutual funds may result in increased withdrawals and reduced inflows, which would reduce the revenue the Group receives from its asset management business.

Market risks associated with fluctuations in bond and equity prices and other market factors are inherent in the Group's business. Protracted market declines can reduce liquidity in the markets, making it harder to sell assets and leading to material losses

The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. In some of the Group's business, protracted adverse market movements, particularly asset price decline, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if the Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the Group for which there are less liquid markets. Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that the Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group does not anticipate. The volatility of world equity markets due to the recent economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against the Group's results.

Any reduction in the Bank's credit rating could increase its cost of funding and adversely affect its interest margins

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. Rating agencies regularly evaluate the Bank and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally.

Credit ratings are subject to the evaluation of the financial strength of a company in accordance with the methodology applied by rating agencies. In addition, the Bank's rating is affected by the sovereign rating of Spain, which is the maximum level achievable by the Bank (see "*The Group is exposed to sovereign risk and may be affected by a downgrade of Spain's credit rating*"). Further, in light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain their current ratings or outlooks.

Any downgrade in the Bank's ratings could increase its borrowing costs, and require it to post additional collateral or take other actions under some of its derivative contracts, and could also limit its access to capital markets and adversely affect the Bank's commercial business. For example, a ratings downgrade could adversely affect the Bank's ability to sell or market certain of its products, engage in business transactions—particularly longer-term and derivatives transactions—and retain its customers, particularly customers who need a minimum rating threshold in order to invest. This, in

turn, could reduce the Bank's liquidity and have an adverse effect on its operating results and financial condition.

The Bank is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes

The Bank is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Bank's operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programmes, including those administered by the United Nations, the European Union and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Bank's business, the Bank may deal with entities the employees of which are considered government officials. In addition, economic sanctions programmes restrict the Bank's business dealings with certain sanctioned countries, individuals and entities.

Although the Bank has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Bank's employees, directors, officers, partners, agents and service providers will not take actions in violation of our policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Bank or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Bank, limits being placed on the Bank's activities, the Bank's authorisations and licences being revoked, damage to the Bank's reputation and other consequences that could have a material adverse effect on the Bank's business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

Risk due to treasury share transactions

As part of its day-to-day operations, the Bank actively manages its treasury share portfolio, which entails buying and selling securities in the market. As this activity is subject to market conditions, the Bank may generate either gains or losses on these transactions. Such losses may have an adverse effect on the Group's financial condition.

Business and industry risks affecting the Group

The Bank faces increasing competition in its business lines

The markets in which the Group operates are highly competitive. The Spanish banking sector has experienced a phase of particularly fierce competition as a result of: (i) the implementation of directives intended to liberalise the European Union's banking sector; (ii) the deregulation of the banking sector throughout the European Union, especially in Spain, which has encouraged competition in traditional banking services, resulting in a gradual reduction in the spread between interest income and interest expense; (iii) the focus of the Spanish banking sector upon fee revenues, which means greater competition in asset management, corporate banking and investment banking; (iv) changes to certain Spanish tax and banking laws; and (v) the development of services with a large technological component, such as internet, phone and mobile banking. In particular, financial sector reforms in the markets in which the Group operates have increased competition among both local and

foreign financial institutions. There has also been significant consolidation in the Spanish banking industry which has created larger and stronger banks with which the Group must now compete. This trend is expected to continue as the Bank of Spain continues to impose measures aimed at restructuring the Spanish financial sector, including requirements that smaller, non-viable regional banks consolidate into larger, more solvent and competitive entities, and reducing overcapacity.

Some of the Bank's competitors, including well-established domestic banks in each of the regional Spanish markets in which it operates, as well as international banks with operations in the regions in which the Bank operates, may have better banking relationships with corporate and retail clients that comprise its target customer bases and may have greater resources.

In addition, the Bank faces increased pressure to meet rising customer demands to provide new banking products. There is no guarantee that the Bank's management and employees will succeed in adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect its ability to successfully compete in its primary markets.

Further, the number of banking transactions conducted over the internet in the markets in which the Bank operates has grown in recent years and is expected to grow further. The Bank may be unable to compete with other banks that offer more extensive online services to their customers than it currently offers to its customers. The Bank also faces competition from non-bank financial institutions and other entities, such as leasing companies, mutual funds, pension funds and insurance companies and, to a lesser extent, department stores (for some consumer finance products).

Increasing competitive pressures could cause the Bank to lose customer deposits to its competitors or force the Bank to offer interest rates on deposits that are higher than the rates received on its loan products. As a result, the Bank could suffer losses which could have a material adverse effect on its business, results of operations and financial condition.

The Bank also faces competition from non-bank competitors, such as leasing and factoring financial providers, mutual funds, pension funds and insurance companies. The Bank cannot be certain that competition from these competitors will not adversely affect the Bank's competitive position.

The Group faces risks related to its acquisitions and divestitures

The Group’s mergers and acquisitions activity involves divesting its interests in some businesses and strengthening other business areas through acquisitions. The Group may not complete these transactions in a timely manner, on a cost-effective basis or at all. Even though the Group reviews the companies it plans to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, the Group may assume unanticipated liabilities, or an acquisition may not perform as well as expected. In addition, transactions such as these are inherently risky because of the difficulties of integrating people, operations and technologies that may arise. There can be no assurance that any of the businesses the Group acquires can be successfully integrated or that they will perform well once integrated. Acquisitions may also lead to potential write-downs due to unforeseen business developments that may adversely affect the Group’s results of operations.

The Group’s results of operations could also be negatively affected by acquisition or divestiture-related charges, amortisation of expenses related to intangibles and charges for impairment of long-term assets. The Group may be subject to litigation in connection with, or as a result of, acquisitions or divestitures, including claims from terminated employees, customers or third parties, and the Group

may be liable for future or existing litigation and claims related to the acquired business or divestiture because either the Group is not indemnified for such claims or the indemnification is insufficient. These effects could cause the Group to incur significant expenses and could materially adversely affect its business, financial condition, cash flows and results of operations.

Despite the Group's risk management policies, procedures and methods, the Group may nonetheless be exposed to unidentified or unanticipated risks

The Group's risk management techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the Group's qualitative tools and metrics for managing risk are based upon the Group's use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks and could result in the Group's losses being significantly greater than the historical measures indicate. In addition, the Group's quantified modelling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could harm the Group's reputation as well as its revenues and profits.

The Group relies on recruiting, retaining and developing appropriate Senior Management and skilled personnel

The Group's continued success depends in part on the continued service of key members of its management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management, both at its head office and at each of its business units. If the Group or one of its business units or other functions fails to staff its operations appropriately or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, the Group's business, financial condition and results of operations, including control and operational risks, may be adversely affected. Likewise, if the Group fails to attract and appropriately train, motivate and retain qualified professionals, its business may also be affected.

Some of the Group's businesses are cyclical and the Group's income may decrease when demand for certain products or services is in a downward cycle

The level of income the Group derives from certain of its products and services depends on the strength of the economies in the regions where the Group operates and market trends prevailing in those regions. Customer loans and deposits, which collectively account for most of its earnings, are particularly sensitive to economic conditions. If the business environment in Spain does not improve or worsens, the results of operations of the Group could be materially adversely affected.

The Bank's insurance coverage may not adequately cover its losses

Due to the nature of the Bank's operations and the nature of the risks that it faces, there can be no assurance that the insurance coverage it maintains is adequate. If the Bank were to suffer a significant

loss for which it is not insured, its business, financial condition and results of operations could be materially adversely affected.

The financial industry is increasingly dependent on information technology systems, which may fail, may not be adequate for the tasks at hand or may no longer be available

Banks and their activities are increasingly dependent on highly sophisticated information technology (**IT**) systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centres. IT systems need regular upgrading and banks, including the Bank, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks, including the Bank, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

Risks related to early intervention, restructuring and resolution

The Preferred Securities may be subject to the exercise of the Spanish Bail-in Power by the relevant authorities. Other powers contained in Law 11/2015 could materially affect the rights of the holders of the Preferred Securities under, and the value of, any Preferred Securities

The BRRD (which has been implemented in Spain through Law 11/2015 and Royal Decree 1012/2015) is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing credit institutions or investment firms (each an **institution**) so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorisation; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances). The determination that an institution is no longer viable may depend on a number of factors which may be outside of that institution's control.

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where any relevant authority (i.e. the FROB, the SRM or, as the case may be and according to Law 11/2015, the Bank of Spain or the CNMV) or other entity with the authority to exercise any such tools and powers from time to time, as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest. The four resolution tools are: (i) sale of business, which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution, which enables resolution authorities to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation, which enables resolution authorities to transfer

impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in, by which the relevant authorities may exercise the Spanish Bail– in Power (as defined below). This includes the ability of the relevant authorities to write down and/or to convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims and subordinated obligations (including capital instruments such as the Preferred Securities).

The **Spanish Bail-in Power** is any write-down, conversion, transfer, modification or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to (i) Law 11/2015, as amended from time to time, (ii) Royal Decree 1012/2015, as amended from time to time, (iii) the SRM Regulation, as amended from time to time, and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced, cancelled, modified or converted into shares, other securities, or other obligations of such institution or any other person (or suspended for a temporary period).

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the relevant authorities under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write down or conversion shall be in the following order: (i) CET1 instruments; (ii) Additional Tier 1 instruments (which, for so long as the obligations of the Bank in respect of the Preferred Securities constitute Additional Tier 1 Instruments, shall include the Preferred Securities); (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) eligible senior claims prescribed in Article 41 of Law 11/2015.

In addition to the Spanish Bail-in Power, the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as the Preferred Securities at the point of non-viability (**Non-Viability Loss Absorption**) of an institution or a group. The point of non-viability of an institution is the point at which the relevant authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or converted into equity or extraordinary public support is to be provided and without such support the relevant authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Spanish Resolution Authority in accordance with Article 38.3 of Law 11/2015. Non-Viability Loss Absorption may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

The powers set out in the BRRD, as implemented through Law 11/2015 and Royal Decree 1012/2015, impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, holders of Preferred Securities may be subject to, among other things, a write-down and/or conversion into equity or other securities or obligations on

any application of the Spanish Bail-in Power and may also be subject to any Non-Viability Loss Absorption.

The exercise of the Spanish Bail-in Power and/or Non-Viability Loss Absorption by the relevant authorities with respect to the Preferred Securities is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the Bank's control. In addition, as the relevant authorities will retain an element of discretion, holders of the Preferred Securities may not be able to refer to publicly available criteria in order to anticipate any potential exercise of any such Spanish Bail-in Power and/or Non-Viability Loss Absorption. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any such powers may occur. Moreover, the relevant authorities may exercise any such powers without providing any advance notice to the holders of the Preferred Securities.

The exercise of any such powers (or any of the other resolution powers and tools) may result in such holders losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected, including by becoming holders of further subordinated instruments. Moreover, the exercise of the Spanish Bail-in Power with respect to the Preferred Securities or the taking by a resolution authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of holders of Preferred Securities, the market price or value or trading behaviour of the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

In addition, the EBA's preparation of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines is pending. These acts could be potentially relevant to determining when or how a relevant authority may exercise the Spanish Bail-in Power and impose Non-Viability Loss Absorption. The pending acts include guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments, and on the rate of conversion of debt to equity or other securities or obligations in any bail-in. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a holder of Preferred Securities under, and the value of a holder's investment in, the Preferred Securities.

Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities

The BRRD prescribes that banks shall hold a minimum level of capital and eligible liabilities in relation to total liabilities (known as **MREL**). On 3 July 2015, the EBA published the final draft technical standards on the criteria for determining MREL (the **Draft MREL Technical Standards**). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance or whether any obstacle to resolvability by the bank and/or the group exists. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

The MREL requirement came into force on 1 January 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs. Therefore, it has proposed a long phase in period of up to 48 months (four years) until 2020.

On 17 December 2015, the European Commission proposed a number of amendments to the Draft MREL Technical Standards, in particular, to amend the reference to the burden-sharing requirement by shareholders and creditors of institutions of significant importance. On 9 February 2016, the ECB issued an opinion on the European Commission's intention to amend the Draft MREL Technical Standards. Although the EBA agrees with the European Commission's argument that the Draft MREL Technical Standards cannot set a harmonised level of MREL, it dissents in relation to some of the proposed amendments as it believes legal clarity and certainty is needed when setting MREL for a systemic institution which may need to access resolution funds. In addition, the European Commission proposed to remove, among other things, several specific provisions relating to the criteria for setting MREL for systemic institutions and the upper limit on the transitional compliance period. However, the EBA believes such amendments would reduce the effectiveness of the Draft MREL Technical Standards in promoting smooth cooperation and convergence when setting MRELs. The EBA has called on the European Commission to promptly adopt the Draft MREL Technical Standards as drafted by the EBA. With the Draft MREL Technical Standards not yet being in a legally binding form or an EU-regulation and the resolution authorities' approach still developing, regulatory standards on MREL may therefore be subject to change.

If the Draft MREL Technical Standards are implemented in their current form, however, it is possible that the Group may have to issue a significant amount of additional MREL eligible liabilities (including, potentially, further Tier 2 instruments and/or senior debt which rank senior to the Preferred Securities) in order to meet the additional capital requirements.

On 9 November 2015, the FSB published its final Total Loss-Absorbing Capacity (**TLAC**) Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of risk-weighted assets as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. As of the date of this Offering Circular, the Bank is not classified as a G-SIB by the FSB. However, if the Bank were to be so classified in the future or if TLAC requirements are adopted and implemented in Spain, and extended to non G-SIBs through the imposition of similar MREL requirements as set out below, then this could create additional minimum capital requirements for the Bank.

In this regard, the EBA will submit a report to the European Commission by 21 October 2016, which reviews the application of MREL and seeks to bring its implementation closer to that of the TLAC requirement that was published by the FSB in November 2015 and that applies to G-SIBs. On the basis of this report the European Commission may, if appropriate, submit by 31 December, 2016 to the European Parliament and the Council a legislative proposal on the harmonised application of MREL, with the possibility of introducing more than one harmonised minimum MREL (including a higher MREL requirement), and to make any appropriate adjustments to the parameters of this requirement.

The Draft MREL Technical Standards do not provide details on the implications of a failure by an institution to comply with its MREL requirement. However, if the approach set out by the FSB in the TLAC Principles and Term Sheet is adopted in respect of MREL then a failure by an institution to comply with MREL would be treated in the same manner as a failure to meet minimum regulatory capital requirements. See " – *Increasingly onerous capital requirements may have a material adverse effect on the Group's business, financial condition and results of operations*".

Accordingly, any failure by the Group to comply with its MREL requirement may have a material adverse effect on the Group's business, financial conditions and results of operations and could result in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement", the MREL requirement once implemented in Spain and the restrictions or prohibitions on discretionary payments.

Risks relating to the specific features of the Preferred Securities

The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change and have a material adverse effect on the terms and market value of the Preferred Securities. Some aspects of the manner in which CRD IV will be implemented remain uncertain

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Offering Circular. Changes in the laws of Spain or their official interpretation by regulatory authorities such as the Bank of Spain or the ECB after the date hereof may affect the rights and effective remedies of holders as well as the market value of the Preferred Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Preferred Securities, which may have an adverse effect on investment in the Preferred Securities.

CRD IV is a recently adopted set of rules and regulations that imposes a series of new requirements, many of which will be phased in over a number of years. Although the CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator. In particular, the measurement of RWAs may change over time as a result of further international review and, if so, it may have an adverse effect on the CET1 ratio.

Any changes in laws and regulations (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio or the CET1 Capital of the Group or the RWA of the Group. Furthermore, because the occurrence of the Trigger Event and restrictions on Distributions where subject to a Maximum Distributable Amount depends, in part, on the calculation of these ratio and capital measures, any change in Spanish laws or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

Such calculations may also be affected by changes in applicable accounting rules, the Group's accounting policies and the application by the Group of these policies. Any such changes, including changes over which the Group has a discretion, may have a material adverse impact on the Group's

reported financial position and accordingly may give rise to the occurrence of the Trigger Event in circumstances where such Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders.

Furthermore, any change in the laws or regulations of Spain, Applicable Banking Regulations or the application thereof may in certain circumstances result in the Bank having the option to redeem the Preferred Securities in whole but not in part (see "*The Preferred Securities may be redeemed at the option of the Bank*"). In any such case, the Preferred Securities would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

Such legislative and regulatory uncertainty could affect an investor's ability to value the Preferred Securities accurately and therefore affect the market price of the Preferred Securities given the extent and impact on the Preferred Securities of one or more regulatory or legislative changes.

The Preferred Securities are irrevocably and mandatorily convertible into newly issued Ordinary Shares in certain prescribed circumstances

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) converted (which calculation is made by the Bank and shall be binding on the Holders) into newly issued Ordinary Shares. Because the Trigger Event will occur when the Group's CET1 ratio will have deteriorated significantly, the resulting Trigger Event will likely be accompanied by a prior deterioration in the market price of the Ordinary Shares, which may be expected to continue after announcement of such Trigger Event.

Therefore, in the event of the occurrence of the Trigger Event, the Current Market Price of an Ordinary Share may be below the Floor Price, and investors could receive Ordinary Shares at a time when the market price of the Ordinary Shares is considerably less than the Conversion Price. In addition, there may be a delay in a Holder receiving its Ordinary Shares following the Trigger Event, during which time the market price of the Ordinary Shares may fall further. As a result, the value of the Ordinary Shares received on conversion following the Trigger Event could be substantially lower than the price paid for the Preferred Securities at the time of their purchase.

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Ordinary Shares in the event of a Trigger Event occurring. See also "*Holders will bear the risk of fluctuations in the price of the Ordinary Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event*".

The circumstances that may give rise to the Trigger Event are unpredictable

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Group's control. For example, the occurrence of one or more of the risks described under "*Generic risks relating to the banking activities of the Group*", "*Macroeconomic risks*", "*Specific risks affecting the Group's business*" and "*Business and industry risks affecting the Group*", or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the Group's business and its future earnings; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible

changes in regulatory capital definitions and calculations of the CET1 ratio and its components or the interpretation thereof by the relevant authorities, including CET1 Capital and RWAs, in each case on a consolidated basis, and the unwinding of transitional provisions under CRD IV); changes in the Group's structure or organisation and the Group's ability to manage actively its RWAs. The CET1 ratio of the Group at any time may also depend on decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position. Holders will not have any claim against the Bank or any other member of the Group in relation to any such decision. In addition, since the Regulator may require the Group to calculate the CET1 ratio at any time, a Trigger Event could occur at any time.

Due to the inherent uncertainty in advance of any determination of such event regarding whether the Trigger Event may exist, it will be difficult to predict when, if at all, the Preferred Securities will be converted into Ordinary Shares. Accordingly, trading behaviour in respect of the Preferred Securities is not necessarily expected to follow trading behaviour associated with other types of convertible or exchangeable securities. Any indication that the Group's CET1 ratio is decreasing (and hence the risk of a Trigger Event occurring is becoming increasingly proximate) may be expected to have an adverse effect on the market price of the Preferred Securities and on the price of the Ordinary Shares. Under such circumstances, investors may not be able to sell their Preferred Securities easily or at prices comparable to other similar yielding instruments.

Holders will bear the risk of fluctuations in the price of the Ordinary Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event

The market price of the Preferred Securities is expected to be affected by fluctuations in the market price of the Ordinary Shares, in particular if at any time there is a significant deterioration in the CET1 ratio by reference to which the determination of any occurrence of the Trigger Event is made, and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Market prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Group, the results of operations and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares or any indication that the Group's CET1 ratio is decreasing (and hence the risk of a Trigger Event occurring is becoming increasingly proximate) may have an adverse effect on the market price of the Preferred Securities. The level of the CET1 ratio specified in the definition of Trigger Event may also significantly affect the market price of the Preferred Securities and/or the Ordinary Shares.

Fluctuations in the market price of the Ordinary Shares between the date upon which notice of Conversion is given and the Conversion Settlement Date may also further affect the value to a Holder of any Ordinary Shares delivered to that Holder on the Conversion Settlement Date.

Preferred Securities are perpetual

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption.

The Preferred Securities may be redeemed at the option of the Bank

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price and otherwise in accordance with Applicable Banking Regulations then in force. Under the CRR, the Regulator may give its consent to a redemption or

repurchase of the Preferred Securities in such circumstances provided that either of the following conditions is met:

(i) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with instruments qualifying as Tier 1 capital of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or

(ii) the Bank has demonstrated to the satisfaction of the Regulator that the Group's Tier 1 capital and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Regulator may consider necessary on the basis set out in CRD IV.

The procedure by which such consent of the Regulator is to be obtained is further prescribed in Articles 29 to 31 of Commission Delegated Regulation (EU) No. 241/2014 of 7 January 2014.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulation then in force) if there is a Capital Event or a Tax Event.

Under the Preferred Securities, a Capital Event is a change (or any pending change which the Regulator considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would result) in: (i) the exclusion of any of the outstanding aggregate Liquidation Preference of the Preferred Securities from the Group's Additional Tier 1 Capital; or (ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of own funds of the Group in accordance with the Applicable Banking Regulations. See also Condition 6.3.

For the purposes of the Preferred Securities, a Tax Event is a change in, or amendment to, the laws or regulations of Spain or any change in the application of such laws or regulations that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being required to pay additional amounts, or (c) the applicable tax treatment of the Preferred Securities being materially affected, and in each case cannot be avoided by the Bank taking reasonable measures available to it. See also Condition 6.4.

If any notice of redemption of the Preferred Securities is given pursuant to Condition 6 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 5.

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or, in the case of a redemption of the Preferred Securities for tax reasons, the application thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Preferred Securities, and if so whether or not the Bank will elect to exercise such option to redeem the Preferred Securities or any prior consent of the Regulator required for such redemption will be given. There can be no assurances that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Preferred Securities. In the case of any early

redemption of the Preferred Securities at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, the Bank may be expected to exercise this option when its funding costs are lower than the Distribution Rate at which Distributions are then payable in respect of the Preferred Securities. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that Distribution Rate.

In addition, the redemption feature of the Preferred Securities is likely to limit their market value. During any period when the Bank has the right to elect to redeem the Preferred Securities, the market value of the Preferred Securities is unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to such period.

A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities

The Bank currently benefits from the Solo Waiver, i.e. the Bank has been waived from its obligations to comply with its capital requirements on an individual basis under Article 7 of the CRR (see "*Increasingly onerous capital requirements may have a material adverse effect on the Group's business, financial condition and results of operations*" and "*Capital Adequacy*"). As a result, the Bank currently has the obligation to calculate and comply with capital requirements only at a Group level. The Solo Waiver may cease to apply to the Bank in the future for different reasons and, in particular, due to strategic and business decisions taken by the Bank. If such an event occurs, the Preferred Securities may cease to constitute Additional Tier 1 Instruments, a Capital Event with respect to the Preferred Securities may arise and the Bank may elect to redeem the Preferred Securities (see "*The Preferred Securities may be redeemed at the option of the Bank*").

Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions

The Preferred Securities accrue Distributions as further described in Condition 3, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any distribution in whole or in part at any time and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Group, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive). See further "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions*" below.

There can, therefore, be no assurances that a Holder will receive payments of Distributions in respect of the Preferred Securities. Unpaid Distributions are not cumulative or payable at any time thereafter and, accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any requirement for, or election of, the Bank to cancel such Distributions then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant

Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

No such election to cancel the payment of any Distribution (or part thereof) or non-payment of any Distribution (or part thereof) will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank.

If, as a result of any of the conditions set out above being applicable, only part of the Distributions under the Preferred Securities may be paid, the Bank may proceed, in its sole discretion, to make such partial Distributions under the Preferred Securities.

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank will not be in any way limited or restricted from making any Distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Group) or in respect of any other Parity Security.

Furthermore, upon the occurrence of the Trigger Event, no further Distributions on the Preferred Securities will be made, including any accrued and unpaid Distributions, which will be cancelled.

Additionally, in relation to the foregoing, investors should be aware that the Bank shall only pay any additional amounts payable in accordance with Condition 11 to the extent such payment can be made on the same basis as for a payment of any Distribution in accordance with Condition 3.

Although it is the Bank's intention to take into account the relative ranking of capital instruments when approving dividends and distributions, as further set out in this risk factor, in accordance with the Applicable Banking Regulations and the Conditions, the Bank may discretionarily elect to cancel Distributions at any time and for any reason.

CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets. In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional "Pillar 2" capital that may be required to be maintained to address risks not considered to be fully captured by the minimum "own funds" requirements or to address macro-prudential considerations, and this may similarly include further regulatory requirements such as the TLAC requirement and MREL. The Group may also decide to hold additional capital or senior liabilities.

CRD IV further introduces capital buffer requirements that form a "combined buffer requirement" that is in addition to the above minimum capital requirements and is required to be satisfied with CET1 capital. As set out in the December 2015 EBA Opinion and the SREP Booklet and as further discussed above, competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of

the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution. There can be no assurance as to how and when effect will be given to the December 2015 EBA Opinion and the SREP Booklet in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements.

As is also discussed above, in accordance with Article 48 of Law 10/2014, Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016 (which implement Article 141 of the CRD IV Directive), an entity not meeting its "combined buffer requirement" must calculate its Maximum Distributable Amount and until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain, that entity will be subject to restrictions on discretionary payments. Following such calculation, any discretionary payments by that entity will be subject to the Maximum Distributable Amount so calculated. See "*Factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities - Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*" above.

In accordance with Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, the restrictions on discretionary payments will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution generated since the last annual decision on the distribution of profits. Such calculation will result in a "Maximum Distributable Amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary payments" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Bank of its discretion to cancel (in whole or in part) payments of Distributions (or payment of any additional amounts payable in accordance with Condition 11) in respect of the Preferred Securities.

Pending clarification of the above provisions, there are a number of factors that make the determination and application of the "Maximum Distributable Amount" particularly complex, including the following:

- the "Maximum Distributable Amount" applies when the "combined buffer requirement" is not maintained. The "combined buffer requirement" represents the amounts of capital that a financial institution is required to maintain beyond the minimum "Pillar 1" and (if applicable) "Pillar 2" capital requirements required by applicable regulations. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust) and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;

- the capital conservation buffer and the institution-specific countercyclical buffer were implemented on 1 January 2016 on a phased basis continuing to 2019. The systemic risk buffer may be applied at any time upon decision of the relevant authorities. As a result, the potential impact of the "Maximum Distributable Amount" will change over time; and

- the Bank will have the discretion to determine how to allocate the "Maximum Distributable Amount" among the different types of discretionary payments. Moreover, payments made earlier in the year will reduce the remaining "Maximum Distributable Amount" available for payments later in the year, and the Bank will have no obligation to preserve any portion of the "Maximum Distributable Amount" for payments scheduled to be made later in a given year. Even if the Bank attempts to do so, there can be no assurance that it will be successful, as the "Maximum Distributable Amount" at any time will depend on the amount of net income earned during the course of the relevant year, which will necessarily be difficult to predict.

These and other possible issues of interpretation make it difficult to determine how the "Maximum Distributable Amount" will apply as a practical matter to limit Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities. This uncertainty and the resulting complexity may adversely impact the market price and liquidity of the Preferred Securities.

Whether Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities may be subject to a Maximum Distributable Amount as a result of a breach of the "combined buffer requirement" will depend, among other things, on the amount of CET1 capital and "distributable profits" of the Group which can be affected by, among other things, decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position and dividends, distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities, and other such considerations similar to those discussed above in relation to the circumstances that may give rise to a Trigger Event. See "- *The circumstances that may give rise to the Trigger Event are unpredictable*" above. Holders will not have any claim against the Bank or any other member of the Group in relation to any such decision.

There can further be no assurance that the respective levels of the applicable capital buffers and/or the "combined buffer requirement" applicable to the Group may not be increased in the future and/or additional capital requirements imposed, some or all of which may impact on the ability of the Bank to make "discretionary payments", including Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities.

The interpretation of Article 68 of Law 10/2014, implementing Article 104(1)(a) of the CRD IV Directive, and Article 16 of the SSM Regulation also remains unclear, in particular as to whether, similar to the inclusion of any additional capital requirements pursuant to "Pillar 2" requirements, the TLAC requirement and/or MREL will also be considered to comprise part of an institution's minimum "own funds" requirements, thereby making compliance with the "combined buffer requirement" higher requirement and increasing the risk of cancellation (in whole or in part) of Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities.

Furthermore, any determination of the capital of the Group and the compliance of the Group with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or a combination of which may not be easily observable or capable of calculation by Holders and some of which may also be outside of the control of the Group. The risk of any cancellation (in whole or in part) of Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities may not, therefore, be possible to predict in

advance and any such cancellation of Distributions (or any additional amounts payable in accordance with Condition 11) on the Preferred Securities could occur without warning.

There are no events of default

Holders have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution (or any additional amounts payable in accordance with Condition 11) in whole or in part at any time and as further contemplated in Condition 3 (see "*Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*") and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank. If Ordinary Shares are not issued and delivered following a Trigger Event, then on a liquidation, dissolution or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

Holders of the Preferred Securities only have a limited ability to cash in their investment in the Preferred Securities

The Preferred Securities are perpetual (see "*Preferred Securities are perpetual*"). The Bank has the option to redeem the Preferred Securities in certain circumstances (see "*The Preferred Securities may be redeemed at the option of the Bank*" and "*A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities*" above). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 6 and 7). There can be no assurance that Holders will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

Therefore, Holders have no ability to cash in their investment, except:

(i) if the Bank exercises its rights to redeem the Preferred Securities in accordance with Condition 6 (on any Distribution Payment Date falling on or after the First Reset Date or upon the occurrence of a Capital Event or a Tax Event) (see "*The Preferred Securities may be redeemed at the option of the Bank*" and "*A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities*") or purchase the Preferred Securities in accordance with Condition 7; or

(ii) by selling their Preferred Securities or, following the occurrence of a Trigger Event and the issue and delivery of Ordinary Shares in accordance with Condition 5, their Ordinary Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Ordinary Shares (see "*Risks relating to the holding of Preferred Securities generally—The secondary market generally*").

If the Bank exercised its right to redeem or purchase the Preferred Securities in accordance with Condition 6 but failed to make payment of the relevant Liquidation Preference to redeem the Preferred Securities when due, such failure would not constitute an event of default but would entitle Holders to bring a claim for breach of contract against the Bank, which, if successful, could result in damages.

Holders have limited anti-dilution protection

The number of Ordinary Shares to be issued and delivered on Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date. The Conversion Price will be, if the Ordinary Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Current Market Price of an Ordinary Share; (b) the Floor Price; and (c) the nominal value of an Ordinary Share (being €0.30 on the Closing Date) or, if the Ordinary Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 5 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Ordinary Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Ordinary Shares, but only in the situations and to the extent provided in Condition 5.3. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares or that, if a Holder were to have held the Ordinary Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

Furthermore, the Conditions do not provide for certain undertakings from the Bank which are sometimes included in securities that convert into the ordinary shares of a bank to protect investors in situations where the relevant conversion price adjustment provisions do not operate to neutralise the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Ordinary Shares nor an undertaking restricting issues of new share capital with preferential rights relative to the Preferred Securities.

Further, if the Bank issues any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares and such Dividend does not constitute an Extraordinary Dividend, no Floor Price adjustment shall be applicable in accordance with Conditions 5.3(b) and 5.3(c), and therefore Holders will not be protected by anti-dilution measures.

Accordingly, corporate events or actions in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Preferred Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Bank may need to raise additional capital. Further capital raisings by the Bank could result in the dilution of the interests of the Holders, subject only to the limited anti-dilution protections referred to above.

The obligations of the Bank under the Preferred Securities are subordinated and will be further subordinated upon conversion into Ordinary Shares

The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2.2 in accordance with Additional Provision 14.2º of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law. For these purposes as of the date of this Offering Circular and according to Additional Provision 14.2º

of Law 11/2015, the ranking of the Preferred Securities, any Parity Securities and any other subordinated obligations of the Bank may depend on whether those obligations constitute at the relevant time an Additional Tier 1 Instrument or a Tier 2 Instrument or a subordinated obligation of the Bank not constituting an Additional Tier 1 Instrument or a Tier 2 Instrument. See Condition 2.2 for the complete provisions regarding the ranking of the Preferred Securities.

To the extent the obligations of the Bank in respect of the Preferred Securities cease to constitute an Additional Tier 1 Instrument but constitute a Tier 2 Instrument, the payment obligations of the Bank under the Preferred Securities will rank, in accordance with Section 2.(b) of Additional Provision 14 of Law 11/2015 but not otherwise and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), as if the Preferred Securities were a Tier 2 Instrument. To the extent the obligations of the Bank in respect of the Preferred Securities cease to constitute either an Additional Tier 1 Instrument or a Tier 2 Instrument, the payment obligations of the Bank under the Preferred Securities will rank, in accordance with Section 2.(a) of Additional Provision 14 of Law 11/2015 but not otherwise and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), as if the Preferred Securities were contractually subordinated obligations of the Bank not constituting an Additional Tier 1 Instrument or a Tier 2 Instrument.

In addition, if the Bank were wound up, liquidated or dissolved, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other creditors ranking ahead of Holders. If the Bank does not have sufficient assets to settle claims of prior ranking creditors in full, the claims of the Holders under the Preferred Securities will not be satisfied. Holders will share equally in any distribution of assets with the holders of any other Parity Securities if the Bank does not have sufficient funds to make full payment to all of them. In such a situation, Holders could lose all or part of their investment.

Furthermore, if the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to the Conditions is still to take place before the liquidation, dissolution or winding-up of the Bank, the entitlement of Holders will be to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

Therefore, if a Trigger Event occurs, each Holder will be effectively further subordinated from being the holder of a subordinated debt instrument to being the holder of Ordinary Shares and there is an enhanced risk that Holders will lose all or some of their investment.

If a Delivery Notice is not duly delivered by a Holder, that Holder will bear the risk of fluctuations in the price of the Ordinary Shares and the Bank may, in its sole and absolute discretion, cause the sale of any Ordinary Shares underlying the Preferred Securities

In order to obtain delivery of the relevant Ordinary Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 5.10. If a duly completed Delivery Notice is not so delivered, then a Holder will bear the risk of fluctuations in the price of the Ordinary Shares that may further affect the value of any Ordinary Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-off Date (save as provided below), in its sole and absolute discretion, elect to appoint a person (the **Selling Agent**) to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly

completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

Due to the fact that, in the event of the Trigger Event, investors are likely to receive Ordinary Shares at a time when the market price of the Ordinary Shares is very low, the cash value of the Ordinary Shares received upon any such sale could be substantially lower than the price paid for the Preferred Securities at the time of their purchase. In addition, the proceeds of such sale may be further reduced as a result of the number of Ordinary Shares offered for sale at the same time being much greater than may be the case in the event of sales by individual Holders.

There are limited remedies available under the Preferred Securities

There are no events of default under the Preferred Securities (see "*There are no events of default*"). In the event that the Bank fails to make any payments or deliver any Ordinary Shares when the same may be due, the remedies of Holders are limited to bringing a claim for breach of contract.

Holders may be obliged to make a takeover bid in case of a Trigger Event if they take delivery of Ordinary Shares

Upon the occurrence of a Trigger Event, a Holder receiving Ordinary Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to the Spanish Securities Market Law, and Royal Decree-Law 1066/2007, of 27 July, as amended, on the legal regime of takeover bids, which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, if its aggregate holding in the Bank exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent. of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Ordinary Shares.

Holders may be subject to disclosure obligations and/or may need approval by the Group's Regulator

As the Holders of the Preferred Securities may receive Ordinary Shares if a Trigger Event occurs, an investment in the Preferred Securities may result in Holders, following Conversion, having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations applicable in Spain.

Pursuant to Spanish law, the Bank and the CNMV must be notified by a natural or legal person when the percentage of voting rights or shares in the Bank controlled by that person, by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or exceeds 3 per cent. and certain specified percentage points thereafter. See "*Reporting Requirements – Acquisition of shares*".

Additionally, any natural or legal person, or such persons acting in concert, who acquire, directly or indirectly, a holding of 5 per cent. must immediately notify the Bank and the Bank of Spain. If the holding that is to be acquired reaches 10 per cent. or more of the capital or the voting rights or any other percentage which makes it possible to exercise a significant influence over the management of a Spanish bank (in any case when there is the capacity to appoint or dismiss a board member), such

person must first notify the Bank of Spain and, as soon as it receives such notice, the Bank of Spain shall then request the Spanish Anti-Money Laundering Authority for a report. See "*Legal Restrictions on Acquisitions of Shares in Spanish Banks*".

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by Holders of the Preferred Securities of substantial fines and/or suspension of voting rights associated with the Ordinary Shares. Accordingly, each potential investor should consult its legal advisers as to the terms of the Preferred Securities, in respect of its existing shareholding and the level of holding it would have if it receives Ordinary Shares following a Trigger Event.

There is no restriction on the amount or type of further securities or indebtedness which the Bank may incur

There is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Preferred Securities. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation, dissolution or winding-up of the Bank in respect of the Preferred Securities and may limit the ability of the Bank to meet its obligations in respect of the Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Ordinary Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

Prior to the issue and registration of the Ordinary Shares to be delivered following the occurrence of a Trigger Event, Holders will not be entitled to any rights with respect to such Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares

Any pecuniary rights with respect to the Ordinary Shares, in particular the entitlement to dividends, shall only arise and the exercise of voting rights and rights related thereto with respect to any Ordinary Shares is only possible after the date on which, following a Conversion, as a matter of Spanish law, the relevant Ordinary Shares are issued and the person entitled to the Ordinary Shares is registered as a shareholder in the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.*) (**Iberclear**) and its participating entities in accordance with the provisions of, and subject to the applicable Spanish law and the limitations provided in, the articles of association of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Ordinary Shares after the occurrence of a Trigger Event shall result in the Holders not receiving any benefits related to the holding of the Ordinary Shares and, on a liquidation, dissolution or winding-up of the Bank, the entitlement of any such Holders will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up, as more particularly described in Condition 4.2.

Risks relating to the holding of Preferred Securities generally

The Preferred Securities may not be a suitable investment for all investors

Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Offering Circular, taking into account that the Preferred Securities may only be a suitable investment for professional or institutional investors;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Conversion of the Preferred Securities into Ordinary Shares, and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Preferred Securities unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the Preferred Securities will perform under changing conditions, the resulting effects on the value of the Preferred Securities and the impact this investment will have on the potential investor's overall investment portfolio.

A capital reduction may take place in accordance with the Spanish Companies Act

In accordance to Article 418.3 of the Spanish Companies Act (as defined in the Conditions), in the event that the Bank intends to approve a capital reduction by reimbursement of contributions (*restitución de aportaciones*) to shareholders, the Bank may have to offer the Holders to convert their Preferred Securities into Ordinary Shares at the applicable Conversion Price prior to the execution of such capital reduction. A resolution of capital reduction for the redemption of any Ordinary Shares previously repurchased by the Bank will not be considered a capital reduction for these purposes.

Risk relating to the Spanish withholding tax regime

Article 44 of Royal Decree 1065/2007 sets out the reporting obligations applicable to preferred securities and debt instruments issued under Law 10/2014. The procedures apply to income deriving from preferred securities (*participaciones preferentes*) and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than 12 months.

According to the literal wording of Article 44.5 of Royal Decree 1065/2007, income derived from securities originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another Organisation for Economic Co-operation and Development (**OECD**) country (such as Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Principal Paying Agent appointed by the Bank submits a statement to the Bank, the form of which is included in the Agency Agreement, with the following information:

(i) identification of the securities;

(ii) income payment date (or refund if the securities are issued at discount or are segregated);

(iii) total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated); and

(iv) total amount of the income corresponding to each clearing system located outside Spain.

These obligations refer to the total amount paid to investors through each foreign clearing house. For these purposes, "income" means interest and the difference, if any, between the aggregate amount payable on the redemption of the Preferred Securities and the issue price of the Preferred Securities.

In accordance with Article 44 of Royal Decree 1065/2007, the relevant Principal Paying Agent should provide the Bank with a statement on the business day immediately prior to each interest payment date. The statement must reflect the situation at the close of business of that same day. In the event that on such date, the entity(ies) obliged to provide the declaration fails to do so, the Bank or the Principal Paying Agent on its behalf will make a withholding at the general rate on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event that withholding tax were required by law, the Bank shall pay such additional amounts as would have been received had no such withholding or deduction been required, except as provided in Condition 11 and as otherwise described in this Offering Circular.

In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Bank will notify the Holders of such information procedures and their implications, as the Bank may be required to apply withholding tax on distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

In certain circumstances Holders may be bound by modifications to the Preferred Securities to which they did not consent

Condition 9 contains provisions for calling meetings of Holders to consider matters affecting the interests of Holders generally. These provisions permit defined majorities to bind all Holders including those Holders who did not attend and vote at the relevant meeting and who voted in a manner contrary to the majority.

The Preferred Securities may be subject to withholding taxes in circumstances where the Bank is not obliged to make gross up payments

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other

agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the EU adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the OECD in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank nor any Principal Paying Agent (as defined in the Conditions of the Preferred Securities) nor any other person would be obliged to pay additional amounts with respect to any Preferred Security as a result of the imposition of such withholding tax. The Bank is required to maintain a Principal Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

U.S. Foreign Account Tax Compliance Withholding

While the Preferred Securities are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs (see "*Taxation – U.S. Foreign Account Tax Compliance Act Withholding*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank's obligations under the Preferred Securities are discharged once it has made payment to, or to the order of, the Common Depositary (as holder of the Preferred Security) and the Bank has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be

required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 7. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption moneys payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or may receive nothing at all.

Interest rate risk

Investment in the Preferred Securities involves the risk that changes in market interest rates may adversely affect the value of the Preferred Securities.

Credit ratings may not reflect all risks associated with an investment in the Preferred Securities

The Preferred Securities are expected, upon issue, to be assigned a Ba3 rating by Moody's. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Preferred Securities does not address the likelihood that Distributions (or any additional amounts payable in accordance with Condition 11) or any other payments in respect of the Preferred Securities will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

Any change in the credit ratings assigned to the Preferred Securities may affect the market value of the Preferred Securities. Such change may, among other factors, be due to a change in the

methodology applied by a rating agency to rating securities with similar structures to the Preferred Securities, as opposed to any revaluation of the Bank's financial strength or other factors such as conditions affecting the financial services industry generally.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal, at any time, by the assigning rating organisation. Potential investors should not rely on any rating of the Preferred Securities and should make their investment decision on the basis of considerations such as those outlined above (see "*The Preferred Securities may not be a suitable investment for all investors*"). The Bank or its Group does not participate in any decision making of the rating agencies and any revision or withdrawal of any credit rating assigned to the Bank or any securities of the Bank is a third party decision for which the Bank does not assume any responsibility.

In general, European regulated investors are restricted under the credit rating agencies regulation (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU‑registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain credit rating information is set out on the cover of this Offering Circular.

In addition to ratings assigned by any hired rating agencies, rating agencies not hired by the Issuer to rate the Preferred Securities may assign unsolicited ratings. If any non-hired rating agency assigns an unsolicited rating to the Preferred Securities, there can be no assurance that such rating will not differ from, or be lower than, the ratings provided by a hired rating agency. The decision to decline a rating assigned by a hired rating agency, the delayed publication of such rating or the assignment of a non-solicited rating by a rating agency not hired by the Issuer could adversely affect the market value and liquidity of the Preferred Securities.

Legal investment considerations may restrict certain investments

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (i) the Preferred Securities are lawful investments for it, (ii) the Preferred Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Preferred Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Preferred Securities under any applicable risk-based capital or similar rules.

INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Offering Circular **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such statement. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of the documents incorporated by reference hereto can be obtained, free of charge, during usual business hours from the Bank at Paseo de la Castellana 129, 28046, Madrid, Spain and from the Principal Paying Agent at 25 Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and may be accessed on the Issuer's corporate website (www.bankinter.com).

For ease of reference, the tables below set out the relevant page references for the audited consolidated financial statements of the Issuer for the years 31 December 2015 and 2014 prepared in accordance with EU-IFRS considering Circular 4/2004 of the Bank of Spain and subsequent amendments, together with the Auditor's report and the unaudited consolidated quarterly financial data of the Issuer for the three month period ended 31 March 2016, which are furnished to the CNMV for periodic purposes, prepared using accounting policies that are consistent with EU-IFRS, except that such financial data does not include all the disclosures required by EU-IFRS to qualify as full financial statements.

Unaudited consolidated quarterly financial data for the three-month period ended 31 March 2016

Audited consolidated financial statements as of and for the year ended 31 December 2015

Audited consolidated financial statements as of and for the year ended 31 December 2014

OVERVIEW OF THE OFFERING

The following is an overview of certain information relating to the offering of the Preferred Securities, including the principal provisions of the terms and conditions thereof. This overview must be read as an introduction to this Offering Circular and any decision to invest in the Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, "Conditions of the Preferred Securities".

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, the Conditions in "*Conditions of the Preferred Securities*".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Issuer:	Bankinter, S.A.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under "*Risk Factors*" above and include the Spanish economy and the global macroeconomic environment and risks relating to increasingly onerous capital requirements, the lack of availability of funding, volatility in interest rates and increased competition. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under "*Risk Factors*".
Issue size:	€200,000,000
Issue date:	10 May 2016
Issue details:	€200,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 Liquidation Preference each. The Issuer has requested that the Preferred Securities qualify as Additional Tier 1 Capital of the Group pursuant to Applicable Banking Regulations.
Liquidation Preference:	€200,000 per Preferred Security.
Use of Proceeds:	Bankinter intends to use the net proceeds from the issue of the Preferred Securities for the Group's general corporate purposes.

Distributions:

The Preferred Securities will accrue Distributions as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date, at the rate of 8.625 per cent. per annum; and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date. Subject as provided in Condition 3 (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrears on each Distribution Payment Date. In respect of the period from (and including) the Closing Date to (but excluding) the First Distribution Payment Date, the Distribution payable in respect of each Preferred Security will be €4312.50 per Liquidation Preference.

For further information, see Condition 3.

Limitations on Distributions:

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Without prejudice to the right of the Bank to cancel the payments of any Distribution:

(a) Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

(b) If the Regulator, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking

Regulations, requires the Bank to cancel a relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

(c) No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any applicable Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive).

(d) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.

For further information, see Condition 3.

Status of the Preferred Securities: The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2.2 in accordance with Additional Provision 14.2º of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law.

For further information, see Condition 2.2.

Optional Redemption: All, and not only some, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in

	force) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event. The Preferred Securities may further be redeemed on or after the Closing Date at the option of the Bank subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Tax Event. For further information, see Condition 6.
Conversion:	In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued Ordinary Shares at the Conversion Price. A Trigger Event occurs if the CET1 ratio of the Group is less than 5.125 per cent. For further information, see Condition 5.
Conversion Price:	If the Ordinary Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Current Market Price of an Ordinary Share; (ii) the Floor Price; and (iii) the nominal value of an Ordinary Share (being €0.30 on the Closing Date), or (b) not then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of subparagraph (ii) or (iii) of paragraph (a) above. The Floor Price is subject to adjustment in accordance with Condition 5.3.
Liquidation Distribution:	Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 5) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or, to the extent permitted by law, any other instrument of the Bank ranking junior to the Preferred Securities. If, before such liquidation, dissolution or winding-up of the Bank described above, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to the Conditions is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount

	equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.
Purchases:	The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.
Pre-emptive rights:	The Preferred Securities do not grant Holders preferential subscription rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.
Voting Rights:	The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the above, the Conditions of the Preferred Securities contain provisions for convening meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. For further information, see Condition 9.
Withholding Tax and Additional Amounts:	As provided in Condition 11, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless the withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain, the Bank shall (subject as provided in Condition 11.2) pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required. For further information, see Condition 11 and "*Taxation – Tax treatment of the Preferred Securities — Reporting obligations*" below.

Form:	The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.
Rating:	The Preferred Securities are expected, on issue, to be assigned a Ba3 rating by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing:	Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.
Governing Law:	The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the Securities Act apply; TEFRA C. The Preferred Securities will not be eligible for sale in the United States under Rule 144A of the Securities Act.

CONDITIONS OF THE PREFERRED SECURITIES

The following is the text of the Conditions of the Preferred Securities (save for the paragraphs in italics which are for disclosure purposes only).

The Preferred Securities (as defined below) are issued by Bankinter, S.A. (the **Bank**) by virtue of the resolutions passed by (a) the general meeting of shareholders of the Bank, held on 20 March 2014 and (b) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 20 April 2016 and in accordance with the First Additional Provision of Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) (**Law 10/2014**) and the CRR (as defined below).

The Preferred Securities will be issued following the registration with the Mercantile Registry of Madrid of a public deed relating to the issuance of the Preferred Securities before the Closing Date (as defined below).

Paragraphs in italics within these Conditions are a summary of certain procedures of Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg** and, together with Euroclear, the **European Clearing Systems**) and certain other information applicable to the Preferred Securities. The European Clearing Systems may, from time to time, change their procedures.

1. DEFINITIONS

1.1 For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

5-year Mid-Swap Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date:

(a) the rate for the Reset Date of the annual swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the relevant Screen Page under the heading "EURIBOR BASIS – EUR" and above the caption "11:00AM FRANKFURT" as of 11.00 (CET) on the Reset Determination Date; or

(b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

5-year Mid-Swap Rate Quotations means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which:

(a) has a term of five years commencing on the relevant Reset Date; and

(b) is in a Representative Amount,

where the floating leg (calculated on an actual/360 day count basis) is equivalent to EURIBOR 6-month;

Accounting Currency means euro or such other primary currency used in the presentation of the Group's accounts from time to time;

Additional Ordinary Shares has the meaning given in Condition 5.4;

Additional Tier 1 Capital means additional tier 1 capital (*capital de nivel 1 adicional*) in accordance with Chapter 3 (Additional Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or the Applicable Banking Regulations at any time;

Additional Tier 1 Instrument means any contractually subordinated obligation of the Bank constituting an additional tier 1 instrument (*instrumentos de capital de nivel 1 adicional*) in accordance with Applicable Banking Regulations, and as referred to in Additional Provision 14.2º of Law 11/2015;

Agency Agreement means the agency agreement dated on or about the Closing Date relating to the Preferred Securities;

Agent Bank means Citibank, N.A., London Branch and includes any successor agent bank appointed in accordance with the Agency Agreement;

Agents means the agents appointed in accordance with the Agency Agreement;

Applicable Banking Regulations means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Group);

Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Madrid and London;

Capital Event means, at any time on or after the Closing Date, a change (or any pending change which the Regulator considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would result) in: (i) the exclusion of any of the outstanding aggregate Liquidation Preference of the Preferred Securities from the Group's Additional Tier 1 Capital; or (ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of own funds of the Group in accordance with the Applicable Banking Regulations;

Cash Dividend means any Dividend which is to be paid or made in cash (in whatever currency), other than any such Dividend falling within paragraph (b) of the definition of "Spin-Off";

CET means Central European Time;

CET1 Capital means the common equity tier 1 capital (*capital de nivel 1 ordinario*) in accordance with Chapter 2 (Common Equity Tier 1 capital) of Title I (Elements of own funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions;

CET1 ratio means, at any time with respect to the Group, the reported ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the

Group, at such time, divided by the Risk-Weighted Assets Amount of the Group, at such time, all as calculated by the Bank;

Clearing System Preferred Securities means, for so long as any of the Preferred Securities is represented by a global preferred security held by or on behalf of a European Clearing System, any particular Liquidation Preference of the Preferred Securities shown in the records of a European Clearing System as being held by a Holder;

Closing Date means 10 May 2016;

CNMV means the Spanish Market Securities Commission (*Comisión Nacional del Mercado de Valores*);

Conversion means a Trigger Conversion;

Conversion Price means, in respect of the Trigger Event Notice Date, if the Ordinary Shares are:

(a) then admitted to trading on a Relevant Stock Exchange, the higher of:

(i) the Current Market Price of an Ordinary Share;

(ii) the Floor Price; and

(iii) the nominal value of an Ordinary Share (being €0.30 on the Closing Date),

in each case on the Trigger Event Notice Date; or

(b) not then admitted to trading on a Relevant Stock Exchange, the higher of subparagraph (ii) or (iii) of paragraph (a) above;

Conversion Settlement Date means the date on which the relevant Ordinary Shares are to be delivered on Trigger Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations may require) the Trigger Event Notice Date;

Conversion Shares has the meaning given in Condition 5.2;

CRD IV means any or any combination of the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

CRD IV Directive means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC or such other directive as may come into effect in place thereof;

CRD IV Implementing Measures means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Bank (on a stand alone basis) or the Group (on a consolidated basis)

including, without limitation, Spanish Law 10/2014, as amended from time to time, and any other regulation, circular or guidelines implementing Law 10/2014;

CRR means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 or such other regulation as may come into effect in place thereof;

Current Market Price means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) (the **Relevant Period**); provided that if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

(a) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement relating to such Dividend or entitlement; or

(b) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement relating to such Dividend or entitlement,

and provided further that:

(i) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement; and

(ii) if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period

shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period, or if the Ordinary Shares are not admitted to trading on a Relevant Stock Exchange at any relevant time for these purposes, the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

dealing day means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

Delivery Notice means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream, Luxembourg from time to time, which contains the relevant account and related details for the delivery of any Ordinary Shares and all relevant certifications and/or representations as may be required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a conversion of the Preferred Securities and the delivery of the Ordinary Shares;

Distributable Items means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Bank that are available in accordance with Applicable Banking Regulations for the payment of that Distribution at such time;

Distribution means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with Condition 3;

Distribution Payment Date means each of 10 February, 10 May, 10 August and 10 November, in each year, with the first Distribution Payment Date falling on 10 August 2016;

Distribution Period means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next (or first) Distribution Payment Date;

Distribution Rate means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 3;

Dividend means any dividend or distribution to Shareholders in respect of the Ordinary Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of a share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital, provided that:

(a) where:

(i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary

Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or

(ii) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;

(b) any issue of Ordinary Shares falling within Condition 5.3(a) or 5.3(b) shall be disregarded;

(c) a purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy-backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Act for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy-back of Ordinary Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy-backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy-backs approved by a general

meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy-back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by or on behalf of the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

(d) if the Bank or any member of the Group shall purchase, redeem or buy-back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and

(e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

Eligible Persons means those Holders or persons (being duly appointed proxies or representatives of such Holders) that are entitled to attend and vote at a meeting of the Holders, for the purposes of which no person shall be entitled to vote at any such meeting in respect of Preferred Securities held by or for the benefit, or on behalf, of the Bank or any of its subsidiaries;

equity share capital means, in relation to any entity, its issued share capital excluding any part of that capital which, in respect of dividends and capital, does not carry any right to participate beyond a specific amount in a distribution;

EUR, **€** and **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;

EURIBOR 6-month means:

(a) the rate for deposits in euro for a six-month period which appears on the relevant Screen Page as of 11.00 (CET) on the Reset Determination Date for the relevant Reset Date; or

(b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the arithmetic mean of the rates at which deposits in euros are offered by four major banks in the Eurozone interbank market, as selected by the Bank, at such time on such Reset Determination Date to prime banks in the Eurozone interbank market for a six-month period commencing on such Reset Date in a Representative Amount, with the Agent Bank to request the principal Eurozone office of each such major bank to provide a quotation of its rate;

Existing Shareholders has the meaning given in the definition of "Newco Scheme";

Extraordinary Resolution has the meaning given to it in Condition 9;

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith provided that: (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking into account such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

First Reset Date means 10 May 2021;

Floor Price means €3.50, subject to adjustment in accordance with Condition 5.3;

Further Preferred Securities means any substantively similar Parity Securities which are contingently convertible into Ordinary Shares other than at the option of the holders thereof;

Group means the Bank together with its consolidated Subsidiaries;

Holders means holders of the Preferred Securities;

Iberclear means the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal*);

Independent Financial Adviser means an independent financial firm or institution of international repute appointed by the Bank at its own expense;

Initial Margin means 8.867 per cent. per annum;

Insolvency Law means Law 22/2003, of 9 July, on Insolvency (*Ley Concursal*), as amended from time to time;

Law 11/2015 means Law 11/2015 of 18, June, on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de Recuperación y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión*), as amended from time to time;

Liquidation Distribution means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

Liquidation Preference means €200,000 per Preferred Security;

Maximum Distributable Amount means, at any time, any maximum distributable amount required to be calculated, if applicable, at such time in accordance with Article 48 of Law 10/2014 and any provision developing such Article, and any other provision of Spanish law transposing or implementing Article 141 of the CRD IV Directive and/or Applicable Banking Regulations;

Newco Scheme means a scheme of arrangement or an analogous proceeding (**Scheme of Arrangement**) which effects the interposition of a limited liability company (**Newco**) between the Shareholders of the Bank immediately prior to the Scheme of Arrangement (the **Existing Shareholders**) and the Bank, provided that:

(a) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;

(b) immediately after completion of the Scheme of Arrangement, the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco are Existing Shareholders, and the Voting Rights in respect of Newco are held by Existing Shareholders in the same

proportion as their respective holdings of such Voting Rights immediately prior to the Scheme of Arrangement;

(c) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Bank;

(d) all Subsidiaries of the Bank immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary) are Subsidiaries of the Bank (or of Newco) immediately after completion of the Scheme of Arrangement; and

(e) immediately after completion of the Scheme of Arrangement, the Bank (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Bank immediately prior to the Scheme of Arrangement;

Non-Cash Dividend means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

Ordinary Shares means ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank and is credited as fully paid up;

Parity Securities means any instrument issued or guarantee granted by the Bank, which instrument or guarantee ranks by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities;

Paying and Conversion Agents means the Principal Paying Agent and any other paying and conversion agent appointed in accordance with the Agency Agreement and includes any successors thereto appointed from time to time in accordance with the Agency Agreement;

Payment Business Day means a TARGET Business Day and, in the case of Preferred Securities in definitive form only, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation;

Preferred Securities means the €200,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities issued by the Bank on the Closing Date;

Prevailing Rate means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (CET) on that date as appearing on or derived from the Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (CET) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

Principal Paying Agent means Citibank, N.A., London Branch (or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 12);

Royal Decree 1012/2015 means Royal Decree 1012/2015, of 6 November, developing Law 11/2015;

Recognised Stock Exchange means a regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;

Redemption Price means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

Reference Banks means five leading swap dealers in the Eurozone interbank market as selected by the Bank;

Reference Date means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day;

Reference Page means the relevant page on Bloomberg or Reuters or such other information service provider that displays the relevant information;

Regulator means the European Central Bank and/or the Bank of Spain, as applicable, or such other or successor authority having primary bank supervisory authority with respect to prudential matters in relation to the Group;

Relevant Stock Exchange means the Spanish Stock Exchanges or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on any of the Spanish Stock Exchanges, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

Representative Amount means an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market;

Reset Date means the First Reset Date and every fifth anniversary thereof;

Reset Determination Date means, in relation to each Reset Date, the second TARGET Business Day immediately preceding such Reset Date;

Reset Period means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

Reset Reference Bank Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 (CET) on the Reset Determination Date for such Reset Date. The Agent Bank will request the principal offices of each of the Reference Banks to provide a quotation of its rate. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period

will be (a) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (b) in the case of the Reset Period commencing on the First Reset Date, 0.041 per cent. per annum;

Retroactive Adjustment has the meaning given in Condition 5.4;

Risk-Weighted Assets Amount means at any time, with respect to the Group, the aggregate amount (in the Accounting Currency) of the risk-weighted assets of the Group, calculated in accordance with CRR and/or Applicable Banking Regulations at such time;

Scheme of Arrangement has the meaning given in the definition of "Newco Scheme";

Screen Page means the display page on the relevant Reuters information service designated as (a) in the case of the 5-year Mid-Swap Rate, the "ISDAFIX2" page or (b) in the case of EURIBOR 6-month, the "EURIBOR01" page, or in each case such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate or EURIBOR 6-month, as applicable;

Securities means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

Selling Agent has the meaning given in Condition 5.10;

Settlement Shares Depository means any reputable independent financial institution, trust company or similar entity to be appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed to perform such functions and who will hold Ordinary Shares in Iberclear or any of its participating entities in a designated custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

Share Currency means euro or such other currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at the relevant time or for the purposes of the relevant calculation or determination;

Shareholders means the holders of Ordinary Shares;

Spanish Companies Act means the Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Act (*Ley de Sociedades de Capital*);

Spanish Stock Exchanges means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the Automated Quotation System – Continuous Market (*Sistema de Interconexión Bursátil Español – Mercado Continuo (SIBE)*) (**AQS**);

Specified Date has the meanings given in Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), as applicable;

Spin-Off means:

(a) a distribution of Spin-Off Securities by the Bank to the Shareholders as a class; or

(b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Bank or any member of the Group;

Spin-Off Securities means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

SSM Regulation means Council Regulation (EU) No. 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions;

Subsidiary means any entity over which the Bank has, directly or indirectly, control in accordance with Article 42 of the Spanish Commercial Code (*Código de Comercio*) and Applicable Banking Regulations;

TARGET Business Day means any day on which the Trans-European Automated Real Time Gross Settlement Transfer (TARGET 2) system is open;

Tax Event means, at any time on or after the Closing Date, a change in, or amendment to, the laws or regulations of Spain or any change in the application of such laws or regulations that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being required to pay additional amounts pursuant to Condition 11 below, or (c) the applicable tax treatment of the Preferred Securities being materially affected and in each case cannot be avoided by the Bank taking reasonable measures available to it;

Tier 2 Instrument means any contractually subordinated obligation of the Bank constituting a Tier 2 instrument (*instrumentos de capital de nivel 2*) in accordance with Applicable Banking Regulations, and as referred to in Additional Provision 14.2º of Law 11/2015;

Trigger Conversion has the meaning given in Condition 5.1;

Trigger Event means if, at any time, as determined by the Bank, the CET1 ratio of the Group is less than 5.125 per cent.;

Trigger Event Notice has the meaning given in Condition 5.1;

Trigger Event Notice Date means the date on which a Trigger Event Notice is given in accordance with Condition 5.1;

Volume Weighted Average Price means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from the Reference Page or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock

exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate; and

As at the date of this Offering Circular, the price of the Ordinary Shares, which are listed on the Relevant Stock Exchange, is published on the Reference Page on each dealing day.

Voting Rights means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the occurrence of any contingency).

1.2 References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or in accordance therewith or under or in accordance with such modification or re-enactment.

1.3 References to any issue or offer or grant to Shareholders or Existing Shareholders **as a class** or **by way of rights** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

1.4 In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or subdivision of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

1.5 For the purposes of Condition 5.3 only (a) references to the **issue** of Ordinary Shares or Ordinary Shares being **issued** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Ordinary Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 5.3(d) and 5.3(f), do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2. FORM AND STATUS

2.1 The Preferred Securities will be issued in bearer form.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Bank to a common depositary for the European Clearing Systems. As a result, account holders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant European Clearing System. It is anticipated that only in exceptional circumstances (such as the closure of the European Clearing Systems, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from the European Clearing Systems or failure to comply with the terms and conditions of the Preferred Securities by the Bank) will definitive Preferred Securities be issued directly to such account holders.

2.2 Unless previously converted into Ordinary Shares pursuant to Condition 5, the obligations of the Bank under the Preferred Securities constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in accordance with Additional Provision 14.2º of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), for so long as the obligations of the Bank in respect of the Preferred Securities constitute an Additional Tier 1 Instrument, rank:

(a) with respect to claims for any Liquidation Preference of Preferred Securities, *pari passu* with each other and with all other claims in respect of any liquidation preference or otherwise for principal in respect of any outstanding Additional Tier 1 Instruments, present and future (and, to the extent permitted by law, *pari passu* with any other Parity Securities, whether so ranking by law or their terms);

(b) junior to (A) any unsubordinated obligations of the Bank (including where those obligations subsequently become subordinated pursuant to Article 92.1º of the Insolvency Law) and (B) any claim for principal in respect of any other contractually subordinated obligations of the Bank, present and future, not constituting Additional Tier 1 Instruments (other than, to the extent permitted by law, any Parity Securities or any other subordinated obligations of the Bank ranking below the Preferred Securities, whether so ranking by law or their terms); and

(c) senior to the Ordinary Shares or any other subordinated obligations of the Bank which by law rank junior to the Preferred Securities (including, to the extent permitted by law, any contractually subordinated obligations of the Bank expressed by their terms to rank junior to the Preferred Securities).

3. DISTRIBUTIONS

3.1 The Preferred Securities accrue Distributions:

(a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 8.625 per cent. per annum; and

(b) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 3.3 and 3.4, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the **Accrual Date**) to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

3.2 Subject to any applicable fiscal or other laws and regulations, the payment of Distributions on the Preferred Securities will be made in euros by the Bank on the relevant Distribution Payment Date by transfer to an account capable of receiving euro payments, as directed by the Principal Paying Agent. The Bank will be discharged from its obligations in respect of the payment of any such Distributions by payment to the Principal Paying Agent on such Distribution Payment Date to, or to the order of, the Holders.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

3.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason.

3.4 Without prejudice to the right of the Bank to cancel the payments of any Distribution under Condition 3.3 above:

(a) Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

(b) If the Regulator, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

(c) No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any

regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any applicable Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive).

(d) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.

3.5 For the purposes of the cancellation of Distributions pursuant to Conditions 3.3 and 3.4 above, the term "Distributions" will be deemed to include, if applicable, any additional amounts payable pursuant to Condition 10 below.

3.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 3.3 above or the limitations on payment set out in Condition 3.4 above and Condition 5.1(b) below then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

3.7 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 3.4 above and Condition 5.1(b) below will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Group) or in respect of any other Parity Security. If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) and accordingly, such Distribution shall not in any such case be due and payable. Notwithstanding the previous sentence, the Bank will give notice to the Holders in accordance with Condition 12 of any election under Condition 3.3 and of any limitation set out in Condition 3.4 occurring or applying.

3.8 The Agent Bank will at, or as soon as practicable after, the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof is to be published in accordance with Condition 11

as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

3.9 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4. LIQUIDATION DISTRIBUTION

4.1 Subject as provided in Condition 4.2 below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 5 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or any other instrument of the Bank ranking junior to the Preferred Securities.

4.2 If, before such liquidation, dissolution or winding-up of the Bank described in Condition 4.1, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to Condition 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 4.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

5. CONVERSION

5.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:

(a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with Condition 12 below (together, the **Trigger Event Notice**);

(b) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions; and

(c) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Ordinary Shares (the **Trigger Conversion**) to be delivered on the relevant Conversion Settlement Date.

The Bank shall notify Holders of the expected Conversion Settlement Date and of the Conversion Price in accordance with Condition 12 not more than ten Business Days following the Trigger Event Notice Date.

Holders shall have no claim against the Bank in respect of (A) any Liquidation Preference of Preferred Securities converted into Ordinary Shares or (B) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (x) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective on-going monitoring of the capital ratios of the Group and (y) calculate and publish the CET1 ratio on at least a quarterly basis.

5.2 Subject as provided in Condition 5.9, the number of Ordinary Shares to be issued on Trigger Conversion in respect of each Preferred Security to be converted (the **Conversion Shares**) shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository on behalf of that Holder in accordance with Condition 5.10. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or, in the circumstances described in Condition 5.10, any cash amounts to which such Holders are entitled under Condition 5.10.

5.3 Upon the occurrence of any of the events described below, the Floor Price shall be adjusted as follows:

(a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Ordinary Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

(b) If and whenever the Bank shall issue any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (i) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (iii) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(c) (i) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A\text{-}B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

Effective Date means, in respect of this paragraph (i) of Condition 5.3(c), the first date on which the Ordinary Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

Extraordinary Dividend means any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

(ii) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A\text{-}B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Ordinary Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy-back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy-back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

Effective Date means, in respect of this Condition 5.3(c)(ii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy-back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy-back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

(iii) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.

(iv) In making any calculations for the purposes of this Condition 5.3(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (A) any consolidation or subdivision of any Ordinary Shares or (B) the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or (C) any increase in the number of Ordinary Shares in issue in the relevant year in question.

(d) If and whenever the Bank shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue on the Effective Date;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 5.3(d), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(d), "C" shall be determined by the application of such formula or variable feature or as if

the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(d), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

(e) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Ordinary Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Ordinary Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A\text{-}B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(e), the first date on which the Ordinary Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

(f) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Ordinary Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuance to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or

purchase or otherwise acquire any Ordinary Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the time of issue of such Ordinary Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 5.3(f), the **Specified Date**), such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(f), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(f), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(g) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Condition 5.3(d), 5.3(e) or 5.3(f) above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in

respect of existing Securities so issued) or Securities which by their terms might be reclassified/redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such reclassification/redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 5.3(g), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this Condition 5.3(g), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(g), the date of issue of such Securities or, as the case may be, the grant of such rights.

(h) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 5.3(g) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 5.3(h) or Condition 5.3(g) above,

provided that if at the time of such modification (as used in this Condition 5.3(h), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at

some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 5.3(h), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(h), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(i) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Condition 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(f) above or Condition 5.3(j) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day under Condition 5.3(e) above)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A\text{-}B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 5.3(i), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

(j) If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders.

Notwithstanding the foregoing provisions:

(i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 5.3 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where

more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

(ii) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (A) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (B) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), the following provisions shall apply:

(A) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;

(B) (I) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (II) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Condition 5.3(d), 5.3(f), 5.3(g) or 5.3(h), as the case may be, plus in the case of each of (I) and (II) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (III) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (I) or (II) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

(C) if the consideration or price determined pursuant to (A) or (B) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of (A) above) or the relevant date of first public announcement (in the case of (B) above);

(D) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

(E) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

5.4 If the Conversion Settlement Date in relation to the conversion of any Preferred Security shall be after the record date in respect of any consolidation, reclassification/redesignation or subdivision as is mentioned in Condition 5.3(a) above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(i) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 5.3(f) and 5.3(g) above or of the terms of any such modification as is mentioned in Condition 5.3(h) above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under Condition 5.3 above (such adjustment, a **Retroactive Adjustment**), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued and delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such additional number of Ordinary Shares (if any) (the **Additional Ordinary Shares**) as, together with the Ordinary Shares issued on conversion of the Preferred Securities (together with any fraction of an Ordinary Share not so delivered to any relevant Holder), is equal to the number of Ordinary Shares which would have been required to be issued and delivered on such conversion if the relevant adjustment to the Floor Price had been made and become effective immediately prior to the relevant Trigger Event Notice Date, provided that if the Settlement Shares Depository and/or the Holders, as the case may be, shall be entitled to receive the relevant Dividend in respect of the Ordinary Shares to be issued or delivered to them, then no such Retroactive Adjustment shall be made in relation to such Dividend, and Additional Ordinary Shares shall not be issued and delivered to the Settlement Shares Depository and Holders in relation thereto.

5.5 If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

5.6 No adjustment will be made to the Floor Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.

5.7 On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 12 promptly after the determination thereof.

5.8 On any Trigger Conversion of the Preferred Securities, the Ordinary Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled.

5.9 Fractions of Ordinary Shares will not be issued on Trigger Conversion or pursuant to Condition 5.4 and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares or Additional Ordinary Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares or Additional Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Ordinary Shares.

5.10 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository such number of Ordinary Shares as is required to satisfy in full the Bank's obligation to deliver Ordinary Shares in respect of the Trigger Conversion of the aggregate amount of Preferred Securities outstanding on the Trigger Event Notice Date.

In order to obtain delivery of the relevant Ordinary Shares upon any Trigger Conversion from the Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (a) such Delivery Notice to the Principal Paying Agent through the relevant European Clearing

System and (b) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant European Clearing System, each in accordance with the procedures of such European Clearing System) no later than five Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the **Notice Cut-off Date**).

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Ordinary Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, provided that such duly completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the tenth Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the **Selling Agent**) to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 3.2 or in such other manner and at such time as the Bank shall determine and notify to the Holders.

Such payment shall for all purposes discharge the obligations of the Bank, the Settlement Shares Depository and the Selling Agent in respect of the relevant Trigger Conversion.

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 5.10 or in respect of any sale of any Ordinary Shares, whether for the timing of any such sale or the price at or manner in which any such Ordinary Shares are sold or the inability to sell any such Ordinary Shares.

If the Bank does not appoint the Selling Agent by the tenth Business Day after the Conversion Settlement Date, or if any Ordinary Shares are not sold by the Selling Agent in accordance with this Condition 5.10, such Ordinary Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void, and the Bank shall be entitled to procure the sale of any applicable Ordinary Shares to which the relevant Holder may be entitled in accordance with this Condition 5.10. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this Condition 5.10 shall be made by the Bank in its

sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

5.11 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 5.10 above) all taxes arising on Trigger Conversion other than:

(a) any taxes payable by the Bank; and

(b) any capital, issue and registration and transfer taxes or stamp duties;

in each case payable in Spain and in respect of the conversion of the Preferred Securities and the issue and delivery of the Ordinary Shares (including any Additional Ordinary Shares) in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank. For the avoidance of doubt, such Holder or the Selling Agent (as the case may be) must pay (in the case of the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or Selling Agent, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

5.12 The Ordinary Shares (including any Additional Ordinary Shares) issued on Trigger Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the Trigger Event Notice Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Trigger Event Notice Date or, as the case may be, the relevant Reference Date.

5.13 Notwithstanding any other provision of this Condition 5 and subject to compliance with the provisions of the Spanish Companies Act and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

6. OPTIONAL REDEMPTION

6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 6.

6.2 Subject to Conditions 6.3 and 6.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on any Distribution Payment Date falling on or after the

First Reset Date, at the Redemption Price, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force).

6.3 If, on or after the Closing Date, there is a Capital Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price.

6.4 If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price.

6.5 The decision to redeem the Preferred Securities must be, subject to Condition 5.1 above, irrevocably notified by the Bank to the Holders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 12.

The Issuer will not give notice under this Condition 6.5 unless, at least 15 days prior to the publication of any notice of redemption, it has delivered to the Agent Bank a certificate signed by two of its duly authorised officers stating that a Capital Event or a Tax Event has occurred, or there is sufficient certainty that it will occur, as the case may be, and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

6.6 If the Bank gives notice of redemption of the Preferred Securities, then by 12 noon (CET) on the relevant redemption date, subject to Condition 5.1 above, the Bank will:

(a) irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

(b) give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders.

6.7 If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:

(a) Distributions on the Preferred Securities shall cease;

(b) such Preferred Securities will no longer be considered outstanding; and

(c) the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.

6.8 The Bank may not give a notice of redemption pursuant to this Condition 6 if a Trigger Event Notice has been given. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 6 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 5. The

Bank shall give notice of any such automatic rescission of a redemption notice to the Holders in accordance with Condition 12 as soon as possible thereafter.

6.9 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue in accordance with Condition 3 above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

7. PURCHASES OF PREFERRED SECURITIES

The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time and subject to the prior consent of the Regulator, if required.

Any Preferred Securities so acquired by the Bank or any member of the Group may, subject to the approval of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in place), be held, resold or, at the option of the Bank or such member of the Group, surrendered to a Paying and Conversion Agent for cancellation.

8. UNDERTAKINGS

So long as any Preferred Security remains outstanding, the Bank will, save as otherwise permitted or required pursuant to an Extraordinary Resolution:

(a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Trigger Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;

(b) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Ordinary Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the Board of Directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of any Trigger Conversion and/or to the Holders;

(c) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary

shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the ordinary shares of Newco are:

(i) admitted to the Relevant Stock Exchange; or

(ii) listed and/or admitted to trading on another Recognised Stock Exchange,

and the Holders irrevocably authorise the Bank to make such amendments to these Conditions;

(d) issue, allot and deliver Ordinary Shares upon Trigger Conversion subject to and as provided in Condition 5;

(e) use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares and any Ordinary Shares issued upon Trigger Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;

(f) at all times keep in force the relevant resolutions needed for issue, free from pre-emptive rights, sufficient authorised but unissued Ordinary Shares to enable Trigger Conversion of the Preferred Securities, and all rights of subscription and exchange for Ordinary Shares, to be satisfied in full; and

(g) where the provisions of Condition 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, use all reasonable endeavours promptly to appoint such person for such purpose.

9. MEETINGS OF HOLDERS

9.1 (a) The Bank may at any time and, if required in writing by Holders holding not less than 10 per cent. in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall convene a meeting of the Holders and if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders. Whenever the Bank is about to convene any meeting it shall immediately give notice in writing to the Principal Paying Agent of the day, time and place of the meeting and the nature of the business to be transacted at the meeting. Every meeting shall be held at a time and place approved by the Principal Paying Agent.

(b) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 12. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (a) specify the terms of the Extraordinary Resolution to be proposed or (b) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, provided that, in the case of (b), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (ii) inform Holders that details of the voting arrangements are available

free of charge from the Principal Paying Agent, provided that, in the case of (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

(c) The person (who may but need not be a Holder) nominated in writing by the Bank (the **Chairman**) shall be entitled to take the chair at each meeting but if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting the Holders present shall choose one of their number to be Chairman, failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

(d) At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 9.1(c)) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding provided that at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

(i) a reduction or cancellation of the Liquidation Preference of the Preferred Securities; or

(ii) without prejudice to the provisions of Condition 3 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction or cancellation of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or

(iii) a modification of the currency in which payments under the Preferred Securities are to be made; or

(iv) a modification of the majority required to pass an Extraordinary Resolution; or

(v) the sanctioning of any scheme or proposal described in Condition 9.2(h)(vi) below; or

(vi) alteration of this proviso or the proviso to Condition 9.1(e) below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

(e) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 9.1(a), be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Principal Paying Agent). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.

(f) At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 9.1(d) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

(g) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 9.1(b) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

9.2 (a) Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.

(b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a

particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(c) Subject to Condition 9.2(e) if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

(d) The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business, which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

(e) Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.

(f) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the proviso to the definition of "**outstanding**" in the Agency Agreement, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.

(g) Subject as provided in Condition 9.2(f), at any meeting:

(i) on a show of hands every Eligible Person present shall have one vote; and

(ii) on a poll every Eligible Person present shall have one vote in respect of each €1.00 or such other amount as the Principal Paying Agent shall in its absolute discretion specify in Liquidation Preference of the Preferred Securities in respect of which he is an Eligible Person.

(h) A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 9.1(d) and 9.1(f)), namely:

(i) power to approve any compromise or arrangement proposed to be made between the Bank and the Holders;

(ii) power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Agency Agreement, these Conditions or the Preferred Securities or otherwise;

(iii) power to agree to any modification of the provisions contained in the Agency Agreement, these Conditions or the Preferred Securities, which is proposed by the Bank;

(iv) power to give any authority or approval which under the provisions of this Condition 9 or the Preferred Securities is required to be given by Extraordinary Resolution;

(v) power to appoint any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;

(vi) power to approve any scheme or proposal for the exchange or sale of the Preferred Securities for, or the conversion of the Preferred Securities into, or the cancellation of the Preferred Securities in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Bank or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash; and

(vii) power to approve the substitution of any entity in place of the Bank (or any previous substitute) as the principal debtor in respect of the Preferred Securities.

(i) Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 12 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

(j) The expression **Extraordinary Resolution** when used in this Condition 9 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll

(k) Subject to Condition 9.2(a), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

(l) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had transpired shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had transpired at the meeting to have been duly passed or had.

(m) For the purposes of calculating a period of **clear days**, no account shall be taken of the day on which a period commences or the day on which a period ends.

(n) The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit. Notice of any such regulations may be given to Holders in accordance with Condition 12 and/or at the time of service of any notice convening a meeting.

10. MODIFICATION

The Principal Paying Agent and the Bank may agree, without the consent of the Holders, to any modification of the Preferred Securities or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 12 as soon as practicable thereafter.

11. TAXATION

11.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 3) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.

11.2 The Bank shall not be required to pay any additional amounts as referred to in Condition 11.1 in relation to any payment in respect of Preferred Securities:

(a) presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason

of his having some connection with Spain other than (i) the mere holding of Preferred Securities or (ii) the receipt of any payment in respect of Preferred Securities; or

(b) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day; or

(c) where taxes are imposed by the Kingdom of Spain (or any political subdivision thereof or any authority or agency therein or thereof having power to tax) that are (i) any estate, inheritance, gift, sales, transfer, personal property or similar taxes or (ii) solely due to the appointment by any Holder, or any person through which such Holder holds such Preferred Security, of a custodian, collection agent, person or entity acting on its behalf or similar person in relation to such Preferred Security; or

(d) presented for payment by or on behalf of a Holder who does not provide to the Bank or an agent acting on behalf of the Bank the information concerning such Holder as may be required in order to comply with any procedures that may be implemented to comply with any interpretation of Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July made by the Spanish tax authorities; or

(e) presented for payment by or on behalf of a Holder who would be able to avoid the withholding or deduction referred to in Condition 11.1 by presenting the Preferred Securities to a Paying Agent in another Member State of the European Union.

For the avoidance of doubt, any amounts to be paid by the Bank on the Preferred Securities will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (**FATCA**) or any law implementing an intergovernmental approach to FATCA.

For the purposes of this Condition 11, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 12 below.

See *"Taxation" for a fuller description of certain tax considerations relating to the Preferred Securities.*

12. NOTICES

Notices, including notice of any redemption of the Preferred Securities, will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Bank may decide (which is expected to be the *Financial Times*). The Bank shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed.

Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Preferred Securities are issued, there may, so long as any global preferred securities representing the Preferred Securities are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Holders except that, for so long as any Preferred Securities are listed on a stock exchange or admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Holders on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

13. AGENTS

In acting under the Agency Agreement and in connection with the Preferred Securities, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Principal Paying Agent, a successor agent bank and additional or successor Principal Paying Agents; provided, however, that the Bank will maintain a Principal Paying Agent and an Agent Bank.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Holders.

14. PRESCRIPTION

To the extent that Article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

15. GOVERNING LAW AND JURISDICTION

15.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law,

nothing contained in this Condition 15 shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

Bankinter intends to use the net proceeds from the issue of the Preferred Securities for the Group's general corporate purposes.

CAPITAL ADEQUACY

Capital Adequacy of the Group

The following table sets forth details of the risk-weighted assets, capital and ratios of the Group:

	31 December	
	2015	**2014**
	(*in (€000s) except percentages*)	
Common equity tier 1 ratio (CET1) (%)[(1)]	11.77	11.87
Tier 1 ratio (%)[(2)]	11.77	11.87
Total capital ratio (%)[(3)]	12.73	13.07
Total risk-weighted assets (RWA)[(4)]	27,238,576	25,703,876

The following table sets forth details of the fully loaded capital ratios and phase in leverage ratios of the Group:

	31 December	
	2015	**2014**
	(*in (€000s) except percentages*)	
CET1 fully loaded (%)[(5)]	11.61	11.53
Tier 1 ratio fully loaded (%)[(5)]	11.61	11.53
Total capital ratio fully loaded (%)[(5)]	12.87	13.15
Leverage ratio (%)[(6)]	5.52	5.53

The table below sets forth the distance or buffer to Trigger Event of the Group:

	31 December 2015	
	(*in (€000s)*)	*(in %)*
Distance or buffer to Trigger Event[(7)]	1,810,743	6.65

Notes:

(1) The common equity Tier 1 ratio was calculated in accordance with CRD IV requirements in 2013, 2014 and 2015, applying a 40 per cent. phase in for 2015.

(2) The Tier 1 ratio was calculated in accordance with CRD IV requirements in 2013, 2014 and 2015, applying a 30 per cent. phase in for 2015.

(3) The total capital ratio was calculated in accordance with CRD IV requirements in 2013, 2014 and 2015, applying a 30 per cent. phase in for 2015.

(4) The total risk weighted assets are phased in according to CRD IV requirements in 2013, 2014 and 2015.

(5) The CET1 fully loaded ratio, Tier 1 fully loaded ratio and total capital fully loaded ratio were calculated in accordance with CRD IV requirements in 2014 and 2015 and they do not include the valuation adjustments of sovereign debt against the public administration. Total capital ratio fully loaded includes Tier 1 ratio fully loaded capital of 11.61 per cent. and Tier 2 fully loaded of 1.25 per cent. in 2015 and Tier 1 ratio fully loaded capital of 11.53 per cent. and Tier 2 fully loaded of 1.62 per cent. in 2014.

(6) Leverage ratio calculated in accordance with Article 429 of CRR and the Delegated Regulation (EU) 2015/62 of 10 October 2014.

(7) The distance to Trigger Event reflects as of 31 December, 2015 the amount of common equity tier 1 capital above the Trigger Event level applicable to the Preferred Securities (being a CET1 ratio of less than 5.125 per cent.).

Changes in CET1, Tier 1 and solvency ratios in 2015 were in large part due to retaining part of the earnings for that year and the elimination of €56 million outstanding preferred securities that were no longer eligible as Additional Tier 1 under CRR and which call exercise was authorised by the ECB at the end of 2015.

Tier 2 capital was reduced as certain subordinated debt issues were no longer treated as capital, either because they were nearing their maturity or because they did not meet the stricter eligibility criteria contained in the CRR.

There was an increase in the Group's risk-weighted assets as a result of the Group's increased level of business.

SREP requirements

As a result of the most recent SREP carried out by the ECB in 2015, the Bank was informed by the ECB that it is required to maintain a CET1 phased in capital ratio of 8.75 per cent. on a consolidated basis (i.e. at Group level). This CET1 capital ratio of 8.75 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.) and the additional own funds requirement under "Pillar 2" which includes the capital conservation buffer (together 4.25 per cent.). As at 31 December 2015, the phase in CET 1 ratio of the Group was 11.77 per cent., being the distance or buffer to the SREP requirement of 3.02 per cent. (302pb).

The ECB has communicated through its SREP Booklet that as the "Capital Conservation Buffer" is phased in, the "Pillar 2" component of the SREP requirement will progressively be reduced. Assuming a static SREP CET1 requirement of 8.75 per cent. for the next four years, the evolution of interaction of "Pillar 2" and "Capital Conservation Buffer" for the Group would be as follows:

	2015	**2016**	**2017**	**2018**	**2019**
Min CET1 (%)	8.75	8.75	8.75	8.75	8.75
Pillar 1 (%)	4.500	4.500	4.500	4.500	4.500
Pillar 2 (%)	4.25	3.625	3.000	2.375	1.750
Capital Conservation Buffer (%)	0.000	0.625	1.250	1.875	2.500

Bankinter's waiver of the application of prudential requirements on an individual basis

Since 8 October 2008, Bankinter benefits from the Solo Waiver. Such waiver was requested by Bankinter from the Bank of Spain on 24 July 2008 by virtue of paragraph 6 of rule 5th of the Bank of Spain Circular 3/2008 of 22 May (**Circular 3/2008**) and based on the following reasons: (a) that in accordance with the legal analysis of the Board of Directors there was no current or foreseen material, practical or legal impediment to the prompt transfer of own funds or repayment of liabilities to the parent company (i.e. Bankinter, S.A.); and (b) both the total assets and the customer credits of Bankinter, S.A., once the intragroup transactions had been removed, represented 99 per cent. of the Bankinter Group and, consequently, the procedures to measure, evaluate and control the risks of the Group were basically referred to the parent company.

The Solo Waiver granted by the Bank of Spain exempted Bankinter from compliance, on an individual basis, with the equity requirements and limits for great risks established under paragraphs 1 and 2 of the rule 4th of Circular 3/2008. Consequently, for the same reasons described above, Bankinter is exempted from the application of prudential requirements on an individual basis under Article 7 of CRR. As a result, Bankinter does not have to comply with, nor calculate nor publish, any capital requirements or ratios on an individual basis for so long as this derogation is in place, having the obligation to calculate and comply with capital requirements only at Group level. See "*A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities*".

As of the date of this Offering Circular, such waiver is still in force and therefore the prudential requirements under CRR are only complied with by Bankinter on a consolidated basis (i.e. at Group level). As far as the Bank is aware, the regulator is not planning to review the Solo Waiver in the short term.

DESCRIPTION OF THE ISSUER AND ITS GROUP

General

The Issuer is incorporated under the laws of Spain as a public company (*Sociedad Anónima*) and was founded on 4 June 1965 as a Spanish industrial bank following a joint venture by Banco de Santander and Bank of America. It was admitted to listing on the Madrid Stock Exchange in 1972, at which time it became fully independent of its founders and transformed into a commercial bank.

The Issuer's Tax Identity Number is No. A-28/157360 and its registered office is located at Paseo de la Castellana 29, 28046 Madrid (telephone number + 34 91 339 7500).

The Issuer is a financial institution (*banco*) registered in the Madrid Commercial Registry and is registered with the Bank of Spain under number 0128. The Group is subject to the supervision of the Bank of Spain, the ECB, the CNMV and the DGSFP.

The Issuer's legal name is Bankinter, Sociedad Anónima. The Issuer is governed by its by-laws, by the Restated Text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010 (the **Spanish Companies Act**) and by specific legislation applicable to credit institutions.

The corporate purpose of the Issuer comprises banking activities subject to the rules and regulations governing banks operating in Spain and is set out in Article 3 of the Issuer's by-laws. Part or all of the activities included in the corporate purpose may be carried out indirectly by the Issuer through its ownership of shares in companies with similar or identical purposes.

Group Structure

The Issuer is the parent company of the Group, which is composed of different subsidiaries and affiliates, dedicated to a variety of banking activities (principally investment services, asset management, credit cards and the insurance business).

The Group operates as a single holding unit with a unified strategy and management and common technical and support services.

Wholly-owned Group Subsidiaries

The wholly-owned subsidiaries of the Group as at 31 December 2015 were as follows:

			% holding		
Name	**Business**	**Registered office**	**% direct holding of Bankinter**	**% indirect holding of Bankinter**	**% total holding**
Bankinter Consultoría, Asesoramiento, y Atención Telefónica, S.A.	Telephone helpline	Paseo de la Castellana 29, 28046 Madrid	99.99	0.01	100
Bankinter Gestión de Activos, S.G.I.I.C.	Asset management	Calle Marqués de Riscal 11, 28010 Madrid	99.99	0.01	100
Hispamarket, S.A.	Holding and acquisition of securities	Paseo de la Castellana 29, 28046 Madrid	99.99	0.01	100

			% holding		
Name	**Business**	**Registered office**	**% direct holding of Bankinter**	**% indirect holding of Bankinter**	**% total holding**
Intermobiliaria, S.A.[(1)]	Property management	Paseo de la Castellana 29, 28046 Madrid	99.99	0.01	100
Bankinter Consumer Finance, E.F.C., S.A.	Finance company	Avda. de Bruselas 12, Alcobendas, 28108 Madrid	99.99	0.01	100
Bankinter Capital Riesgo, SGECR, S.A.	Fund management and private equity company	Paseo de la Castellana 29, 28046 Madrid	96.77	3.23	100
Bankinter Sociedad de Financiación, S.A.U.	Issuer of debt securities	Paseo de la Castellana 29, 28046 Madrid	100	-	100
Bankinter Emisiones, S.A.U.	Issuer of preferred shares	Paseo de la Castellana 29, 28046 Madrid	100	-	100
Bankinter Capital Riesgo I Fondo Capital	Private equity fund	Paseo de la Castellana 29, 28046 Madrid	100	-	100
Arroyo Business Consulting Development, S.L.	Inactive	Calle Marqués de Riscal 13, 28010 Madrid	99.99	0.01	100
Bankinter Global Services, S.A.	Consultancy	Calle Pico de San Pedro 2, 28760 Madrid	99.99	0.01	100
Relanza Gestión, S.A.	Collection and recovery services	Avda. de Bruselas 12, Alcobendas, 28018 Madrid	0.01	99.99	100
Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros	Insurance company	Avda. Europa 7, Tres Cantos, 28760 Madrid	100	-	100
Línea Directa Asistencia, S.L.U.	Insurance assessments, vehicle inspections and travel assistance	CM Cerro de los Gamos 1, Pozuelo de Alarcón, 28224 Madrid	-	100	100
LDAACTIVOS, S.L.U.	Property management	Rd Europa 7, Tres Cantos, 28760 Madrid	-	100	100
Moto Club LDA, S.L.U.	Services to motorcycle users	Calle Isaac Newton 7, Tres Cantos, 28760 Madrid	-	100	100

			% holding		
Name	**Business**	**Registered office**	**% direct holding of Bankinter**	**% indirect holding of Bankinter**	**% total holding**
Centro Avanzado de Reparaciones CAR, S.L.U.	Vehicle repair	Avda. Sol 5, Torrejón de Ardoz, 28850 Madrid	-	100	100
Ambar Medline, S.L.	Insurance mediation	Avda. Europa 7, Tres Cantos, 28760 Madrid	-	100	100
Bankinter Securities SV, SA.	Securities broker	Marqués de Riscal 11, 28010 Madrid	99.99	0.01	100
Bankinter Luxembourg, S.A.	Private banking	37, Avenue J. F. Kennedy, L-1855 Luxembourg	99.99	0.01	100
Naviera Sorolla, S.L.	Financial services (SPV)	Paseo de la Castellana, 29, 28046 Madrid	100	-	100
Naviera Goya, S.L.	Financial services (SPV)	Paseo de la Castellana, 29, 28046 Madrid	100	-	100
Castellana Finance Limited	Financial services (SPV)	25/28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland	100	-	100

Note:

(1) Intermobiliaria, S.A. was in negative equity. The Issuer granted this company a participating loan which amounted to €560 million as of 31 December 2015 to compensate for Intermobiliaria, S.A. losses and in order to restore it to positive equity within the requisite legal timeframe. The participating loan met the requirements for it to be considered as equity established by Royal Decree Law 7/1996 of 7 June on urgent tax measures and measures to foster and deregulate economic activity. As a result of this participating loan, Intermobiliaria, S.A. re-established its positive equity position.

Other Subsidiaries and Affiliates

Other subsidiaries and affiliates of the Group (accounted for using the equity method) basis as at 31 December 2015 were as follows:

			% holding		
Name	**Business**	**Registered office**	**% direct holding of Bankinter**	**% indirect holding of Bankinter**	**% total holding**
Helena Activos Líquidos, S.L.	Other financial services	Calle Serrano 41, 28001 Madrid	29.53	-	29.53
Eurobits Technologies, S.L.	Advanced digital services	Avda de Bruselas 7, Alcobendas, 28108 Madrid	49.95	-	49.95
Bankinter Seguros de Vida, S.A. de Seguros y	Insurance company	Avda de Bruselas 12, Alcobendas, 28018 Madrid	50	-	50

			% holding		
Name	**Business**	**Registered office**	**% direct holding of Bankinter**	**% indirect holding of Bankinter**	**% total holding**
Reaseguros					
Bankinter Seguros Generales, S.A. de Seguros y Reaseguros	Insurance company	Paseo de la Castellana, 29, 28046 Madrid	49.9	-	49.9

Business of the Group

The majority of the Group's activities are carried out in or from Spain and a small proportion of these activities (0.29 per cent. of the total income and 0.47 per cent. of the total assets of the Group as at 31 December 2015) is also carried out in Luxembourg. Additionally, following completion on April 2016 of the acquisition of the business of Barclays Retail & Wealth Portugal and Barclays Insurance Portugal, the Group also carries out activities in Portugal (see "*Capital Expenditures*" below). The Group conducts its business through the following operating segments: (i) commercial banking; (ii) corporate and SME banking; (iii) bankinter consumer finance; (iv) insurance services; and (v) other business. The principal activities within each operating segment of the Group are described below.

Commercial banking

The Group engages in its commercial banking activities via the Issuer and through the different distribution channels which operate in Spain: mainly the Issuer's branches, internet (through the Issuer's website) and call centres. Commercial banking consists of a variety of services, which include credit and debit card services, current and savings accounts, lending and mortgage services, broker services, portfolio management, mutual investment funds (via Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros and via Bankinter Gestión de Activos, SGIIC, the Group's asset management company) and insurance services (via Bankinter Seguros de Vida, S.A. de Seguros y Reaseguros y Bankinter Seguros Generales, S.A. de Seguros y Reaseguros).

Commercial banking also comprises the following business lines and activities:

(1) *Private Banking*: this business line specialises in comprehensive wealth management for investors. It focuses on clients with a financial net worth above €1,000,000.

(2) *Personal Banking*: this business line focuses on clients not included within the Private Banking business line but who have either a family unit income above €70,000, funds, securities and brokerage units of between €75,000 and €1,000,000, or financial net worth of between €75,000 and €1,000,000.

(3) *Banking for Private Individuals (Retail Banking)*: this business line includes the products and services offered to domestic customers. It comprises individuals not covered by the Private Banking or Personal Banking business lines.

(4) *Foreign customers*: this business line includes the products and services offered to non-Spanish European customers located in Catalonia, Eastern Spain, the Balearic Islands, Andalusia and the Canary Islands.

Within commercial banking, the Issuer focuses its strategy in certain client segments, in particular Private Banking and Personal Banking.

Customer assets in the Private Banking business line rose by 21.2 per cent. in 2015 compared with the same period in 2014, reaching €28 thousand million as at 31 December 2015. The Issuer has also maintained its second position in the SICAV (*sociedad de inversión de capital variable*, a collective investment company with variable share capital) ranking, with 461 companies managed as at 31 December 2015, 20 per cent. more than in 2014 and constituting a market share of 13.5 per cent. (source: Morningstar).

The improvement in economic expectations, together with low interest rates, meant that in 2015 customers demanded new investment proposals. This provided business opportunities that had disappeared during the hardest years of the crisis and which reappeared during the recovery. In 2014, Bankinter started a process to transform Personal Banking; this improvement and transformation effort paid off in 2015, with an increase of 6.4 per cent. in the number of active customers in the business line of Personal Banking.

The market for private customers experienced an increase in the contracting of new mortgages by 21 per cent. in 2015, which has meant the registration of €658.1 million worth of mortgages throughout the year. Additionally, €134.7 million worth in registrations of personal loans were taken, 46 per cent. more than in the previous year, and the balance of the salary accounts portfolio increased by 22 per cent.

The market of individual foreign customers, centred most notably around mortgage financing, was consolidated in 2015. The number of new customers went up to 2,863, with an increase of 7 per cent. in active customers. Total resources also evolved in a similar way, with a rise of 17.4 per cent. The amount from the contracting of new mortgages rose €66.5 million, which meant an increase of 39 per cent. on the previous year.

The residential mortgage portfolio of individuals showed a Loan to Value (**LTV**) of 58 per cent. in 2015 and 90 per cent. has as collateral the holders' primary residence. The NPL ratio in this portfolio (2.7 per cent. as at 31 December 2015) continues to be the best in the entire Spanish financial system, which in September 2015 (the latest information published by the Spanish Mortgage Association) had a NPL loan ratio of 5.0 per cent. for this type of lending.

The Group's policy for approving new residential mortgage loans has always been very conservative. Since 2003, the maximum LTV has been set at 80 per cent.. The average effort (measured as the proportion of income that the customer allocates to paying mortgage loan instalments) in the mortgage portfolio remained at a very low level as at 31 December 2015 (22 per cent.).

During 2015, the average assets in the Group's commercial banking segment had increased by 1.83 per cent. compared to 2014 to €24,821 million and average liabilities had increased by 11.19 per cent. compared to 2014 to €19,660 million. The gross operating income generated by the Group's commercial banking segment increased by 47.45 per cent. during 2015.

The net interest income of the Group's commercial banking segment increased by 95.13 per cent. during 2015 as a result of a decrease in the cost of funding and the segment's greater level of activity, while gross profit from operations in this segment rose to €149 million during 2015.

Corporate and small and medium enterprise (SME) banking

The corporate and SME banking segment provides a specialised service aimed at large businesses, as well as the public sector. This segment includes the products and services offered to the corporate clients of the Group. During the last years, the Group has focused its growth strategy on this segment together with commercial banking (particularly, on the Private Banking business line) and more recently on the Personal Banking business line and the bankinter consumer finance segment.

Through this segment, the Issuer provides financial solutions for different corporate requirements and develops and distributes products and services with high technological content. The strategy pursued in this segment involves providing innovative financial products to enable the Group's customers to enhance their efficiency and profitability.

In order to grow, rationalise resources and improve its relationship with customers, Bankinter completed a profound transformation in the area, segmenting the attention directed at companies into three levels, depending on their annual sales volume:

(1) SMEs: with annual sales of up to five million, 361 SME Centres inside general branches and 62,868 customers;

(2) Companies: with annual sales from five to 50 million, 78 business centres and 19,476 customers; and

(3) Corporate: with annual sales starting from 50 million, 22 corporate centres and 5,578 customers.

The corporate and SME banking lending portfolio grew by 5.32 per cent. in 2015, with average assets of €19,896 million during 2015, compared with €18,891 million in 2014.

Similarly, average liabilities grew during 2015, amounting to €12,834 million, an increase of 15.04 per cent. compared with the previous year.

The net interest income of the Group's corporate and SME banking segment increased by 1.75 per cent. during 2015. Fees decreased by 2.25 per cent. and the gross operating income increased by 0.68 per cent. compared with the previous year. Overall, gross profit from corporate and SME banking operations increased by more than 17.16 per cent. in 2015.

Bankinter consumer finance (BKCF)

The bankinter consumer finance segment includes the business activity carried out by Bankinter Consumer Finance, E.F.C., S.A., consisting of issuing credit cards and granting consumer loans.

During 2015, the average assets in BKCF had increased to €483 million (21.93 per cent. compared to 2014). The gross operating income generated by BKCF increased by 17.41 per cent. during 2015.

The net interest income of BKCF increased by 24.80 per cent. during 2015 while gross profit from operations in this business rose to €30 million during 2015.

Insurance services

The insurance services segment includes the insurance business of Linea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros (**LDA**) and its subsidiaries.

LDA holds a large market share among insurance companies without intermediation services, amounting to approximately 60 per cent. as at 31 December 2015 (Source: LDA's internal information).

The profit from LDA's operations in 2015 was €99.4 million, 5.78 per cent. more than in 2014. This was the largest profit in the history of LDA.

During 2015, the average assets and average liabilities of the Group's insurance business segment amounted to €1,272 million and €939 million respectively (these figures were €1,321 million and €972 million, respectively, as at 31 December 2014). During 2015, gross operating income generated by the insurance business segment increased by 3.65 per cent. During 2015, net interest income decreased by 23.85 per cent. and gross profit from operations increased by 3.79 per cent.

Other Business

The other business segment of the Group comprises the following activities:

(1) *Capital Markets*: which includes the net interest income/expense and the profit/loss from financial operations generated by the institutional portfolio and trading activity.

(2) *COINC*: the online savings platform created by the Issuer. This platform has been active since 2013 and has been one of the main investments in digital banking of the Group. With more than 84,000 clients, the volume of deposits managed on this platform exceeds €1,000 million (84 per cent. more than in 2014).

(3) *Bank's Institutional Management*: the activity of the treasury desk with institutional clients.

The net interest income of the other business segment decreased by 0.5 per cent. in 2015, while gross operating income rose to €204 million during 2015.

Financial Overview

Income and expenses

As at 31 December 2015, the Group had a total consolidated profit of €376 million (compared with €276 million in 2014). This was the Group's best consolidated profit figure in its 50-year history. Pre-tax profit for 2015 came to €520 million, 32.45 per cent. more than in the previous year. This increase was due primarily to the sustained growth of certain operating business lines and segments already mature, such as Private Banking and corporate and SME banking and others recently reinforced, such as Personal Banking and bankinter consumer finance as well as the solidity and profitability of the insurance business.

The following table sets out information on income, expenses and profits for the financial years ended 31 December 2015 and 2014:

Audited	**31 December 2015** ***(€000s)***	**31 December 2014** ***(€000s)***
Interest and similar income	1,283,765	1,404,321
Interest expense and similar charges	(414,311)	(648,963)
Net interest income	**869,454**	**755,358**
Income from equity instruments	6,681	8,004

Audited	**31 December 2015** *(€000s)*	**31 December 2014** *(€000s)*
Share of results of entities accounted for using the equity method	18,223	16,962
Fees and commissions income	390,148	365,298
Fees and commissions expenses	(80,275)	(73,891)
Result of financial operations (net)	66,152	90,084
Exchange differences (net)	52,956	43,211
Other operating income	695,783	682,500
Other operating expenses	(450,306)	(438,703)
Gross income	**1,568,815**	**1,448,823**
Administrative cost	(699,401)	(655,473)
Depreciation and amortisation	(61,653)	(63,773)
Provisions (net)	(25,254)	(41,536)
Impairment losses on financial assets (net)	(189,301)	(237,390)
Profit from operations	593,206	450,651
Impairment losses on other assets (net)	(442)	(118)
Profit from operations	**593,206**	**450,651**
Gains/losses on derecognition of assets not classified as non-current assets held for sale	(2,001)	(2,980)
Gains/losses on non-current assets held for sale not classified as discontinued operations	(70,433)	(54,714)
Pre-tax profit	**520,330**	**392,839**
Income tax	(144,410)	(116,952)
Profit for the year from continuing operations	375,920	275,887
Consolidated profit for the year	**375,920**	**275,887**

The Group's net interest income for the year ended 31 December 2015 amounted to €869 million, representing an increase of 15.1 per cent. compared with 2014. This increase was due primarily to the continued fall in interest rates during 2015, which enabled the Group to further reduce its funding costs. An improvement in customer margins was also relevant to this increase.

There was also a positive trend in the gross income of the Group during the year ended 31 December 2015, with fees and commission income growing by 6.8 per cent. compared with the previous year (mainly due to the asset management business, a strategic priority of the Group, through its Private Banking and Personal Banking operations) and a reduction in income from financial transactions and exchange differences of 10.64 per cent. This reduction was primarily due to a strategic decision to reduce the contribution of institutional activity to profits.

The increase in administrative costs is due to the investments that the Group has made in organically growing its business; for example, recruitment, investment in marketing and other related

investments. This focus on costs enabled the Group to maintain and even slightly improve its cost/income ratio, which stood at 44.6 per cent. in 2015 compared with 45.2 per cent. in 2014.

Lastly, in 2015, the Group improved the coverage of its legal and tax contingencies, reduced impairment losses on financial assets, and curtailed losses on foreclosed assets. The combination of all the above factors led to a 32.45 per cent. improvement in pre-tax profits.

Assets and liabilities

At 31 December 2015, the Group had total assets of €58,660 million (€57,333 million in 2014), and liabilities of €54,862 million (€53,690 million in 2014).

The following table sets forth information on assets and liabilities of the Group as at 31 December 2015 and 2014:

Audited	**31 December 2015** *(€000s)*	**31 December 2014** *(€000s)*
Cash and balances at central banks	925,361	357,327
Financial assets held for trading	4,473,638	5,353,482
Other financial assets at fair value through profit and loss	57,209	49,473
Available-for-sale financial assets	3,530,153	3,013,813
Loans and receivables	45,479,314	44,006,521
Held to maturity investments	2,404,757	2,819,482
Hedging derivatives	160,073	148,213
Non-current assets held for sale	318,287	356,671
Investments	39,424	29,726
Pension-linked insurance agreements	343	714
Reinsurance assets	2,889	3,006
Tangible assets	493,114	467,362
Intangible assets	266,693	282,327
Tax assets	348,238	298,172
Other assets	160,317	146,685
Total assets	**58,659,810**	**57,332,974**
Financial liabilities held for trading	3,769,080	2,441,491
Financial liabilities at amortised cost	49,836,994	49,990,680
Hedging derivatives	11,489	20,241
Liabilities under insurance contracts	630,983	614,780
Provisions	95,868	88,236
Tax liabilities	314,940	312,416

Audited	**31 December 2015** *(€000s)*	**31 December 2014** *(€000s)*
Other liabilities	202,279	221,686
Total liabilities	**54,861,623**	**53,689,530**
Equity	3,689,436	3,513,914
Valuation adjustments	108,741	129,531
Total liabilities and equity	**58,659,810**	**57,332,974**

Credit Quality

The table below shows the Group's NPLs ratios and coverage as at 31 December 2015 and 2014:

Audited	**31 December 2015** *(€)*	**31 December 2014** *(€)*
Computable risk excl. securitisation	49,415,783	47,321,948
Doubtful debts	2,039,239	2,232,732
Provisions for credit risk	856,302	953,022
NPL ratio (%)	4.13	4.72
Non-performing loans coverage ratio (%)	41.99	42.68

2015 was characterised by stabilisation in the number and volume of new NPLs. Doubtful debts as at 31 December 2015 stood at €2,039,239, 8.67 per cent. less than at 31 December 2014.

This reduction in doubtful debts, together with the increase in lending, enabled the Group to reduce the NPL ratio by 4.72 per cent. during 2014, to 4.13 per cent. as at 31 December 2015.

Capital Expenditures

The Group's principal investments are financial investments in its subsidiaries and affiliates. The main capital expenditures in 2015 and 2014 were as follows:

2015

On 2 September 2015, the Issuer announced the acquisition of the business of Barclays Retail & Wealth Portugal, which includes the retail banking, private banking and business banking activities managed by Barclays Bank PLC in Portugal.

The acquisition excludes Barclays' Portuguese investment banking and card business, as well as a small group of its corporate customers, which will continue to be owned and operated by Barclays.

On the same date, Bankinter Seguros de Vida announced the acquisition of Barclays Insurance Portugal.

Completion of both acquisitions took place on April 2016 (see "*Recent events*" below).

2014

During the fourth quarter of 2014, the Group, which had a stake in Eurobits Technologies, S.L. of 32.01 per cent., increased its stake to 71.98 per cent.

Capital Divestitures

The Group's principal divestitures are financial divestitures in its subsidiaries and affiliates. The main capital divestitures in 2015 were as follows:

2015

During 2015, the Group decreased its participation in Eurobits Technologies, S.L. from 71.98 per cent. to 49.95 per cent.

Administrative, Management and Supervisory Bodies

Board of Directors

The Board of Directors is the main body responsible for the management of the Issuer and for monitoring the fulfilment of the Group's objectives. The Board of Directors, headed by the Chairman, comprises ten members nominated by the General Shareholders' Meeting. The Board of Directors has the power to represent, manage and monitor the Issuer, and is authorised to exercise all rights, enter into agreements, and comply with all obligations relating to the Issuer's business activities. Its duties include the interpretation, amendment, execution and implementation of the resolutions adopted by the General Shareholders' Meeting.

The table below sets out, at the date of this Offering Circular, the names of the members of the Board of Directors, the dates of their respective appointment, positions within the Issuer, membership type, and principal activities outside the Issuer:

	First appointment	Mandate expiration	Type	Title	Principal activities outside the Issuer
Chairman Mr Pedro Guerrero Guerrero	13 April 2000	2017	External-Other External Director[(1)]	Chairman and Member of the Executive Committee	Sole Director (Corporación Villanueva, S.A.), Director (Prosegur, Compañía de Seguridad, S.A.) and Director (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros)
Vice-Chairman Cartival, S.A.[(2)]	26 June 1997	2018	Executive	Vice-Chairman/Chairman of the Executive Committee	
Chief Executive Officer Mrs María	21 October 2010	2019	Executive	Chief Executive Officer/Member of the Executive Committee	Director (Esure) and Director (Línea Directa Aseguradora, S.A. Compañía de

	First appointment	Mandate expiration	Type	Title	Principal activities outside the Issuer
Dolores Dancausa Treviño					Seguros y Reaseguros)
Director Mr Marcelino Botín-Sanz de Sautuola y Naveda[(3)]	21 April 2005	2017	External Proprietary	Member of the Appointments and Corporate Governance Committee	
Director Mr Fernando Masaveu Herrero[(4)]	14 September 2005	2017	External Proprietary	Member of the Executive Committee, Audit and Regulatory Compliance Committee, and Risk Committee	Chairman (Corporación Masaveu S.A.), and Chairman (Energías de Portugal, S.A.)
Director Mr Jaime Terceiro Lomba	13 February 2008	2020	External Independent	Chairman of the Risk Committee, Member of the Audit and Regulatory Compliance Committee, Appointments and Corporate Governance Committee, Remunerations Committee, and Executive Committee	Director (AENA, S.A.) and Director (Tecnocom Telecomunicaciones y Energía, S.A.)
Director Mr Gonzalo de la Hoz Lizcano	13 February 2008	2020	External Independent	Chairman of the Audit and Regulatory Compliance Committee, Member of the Appointments and Corporate Governance Committee, Remunerations Committee, and Risk Committee	Chairman (Bankinter Global Services, S.A.) and Chairman (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros)
Director Mr Rafael Mateu de Ros	21 January 2009	2017	External Independent	Chairman of the Appointments and Corporate Governance	Director (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros)

	First appointment	Mandate expiration	Type	Title	Principal activities outside the Issuer
Cerezo				Committee and Member of the Executive Committee, Audit and Regulatory Compliance Committee, Risk Committee, and Remunerations Committee	
Director Mrs María Teresa Pulido Mendoza	18 March 2015	2019	External Independent		
Director Mrs Rosa María García García	18 March 2015	2019	External Independent	Chairman of the Remunerations Committee	Chairman (Siemens, S.A.) and Director (Acerinox, S.A.)

(1) Mr Pedro Guerrero Guerrero was the Executive Chairman of the Issuer until 31 December 2012, when he ceased to perform executive functions. The period that the Spanish Companies Act establishes to qualify a person as an independent director has not yet elapsed, and so Mr Guerrero Guerrero has the status of "Other External Director".

(2) This company is represented on the Board by Mr Alfonso Botín-Sanz de Sautuola y Naveda. Mr Jaime Botín-Sanz de Sautuola is the controlling shareholder of Cartival, S.A.

(3) Related to the relevant shareholder Mr Jaime Botín-Sanz de Sautuola.

(4) Related to the relevant shareholder Corporación Masaveu, S.A.

Mrs Gloria Calvo Díaz is the Secretary of the Board of Directors (non-director).

Executive Committee

The Board of Directors has delegated all of its powers in favour of the Executive Committee, except for those that cannot be delegated pursuant to the provisions of the Spanish Companies Act, Bankinter's by-laws and the Board of Directors Regulation (*Reglamento del Consejo*). The following powers have been explicitly delegated:

a) authorisation of new credit transactions to the limit set by the Board of Directors excluding the authorisation of transactions with members of the Board of Directors, Senior Management and other related parties;

b) authorisation of new business lines and ad hoc transactions not strategic in nature, and without tax risk for the Bank or the Group;

c) monitoring of the different business lines, types of clients and its segmentation, commercial network, organisation within the Group, products and services offered, all together in line with the strategic or business plan approved by the Board of Directors; and

d) follow-up of significant changes on shareholders.

As at the date of this Offering Circular, the Executive Committee is composed of the following six members:

Name	Position
Cartival, S.A. (represented by Mr Alfonso Botín-Sanz de Sautuola y Naveda)	Chairman (Executive)
Mrs María Dolores Dancausa Treviño	Member (Executive)
Mr Pedro Guerrero Guerrero	Member (External)
Mr Fernando Maseveu Herrero	Member (External Proprietary)
Mr Jaime Terceiro Lomba	Member (External Independent)
Mr Rafael Mateu de Ros Cerezo	Member (External Independent)
Mrs Gloria Calvo Díaz	Secretary

The resolutions adopted by the Executive Committee do not require subsequent ratification by a meeting of the Board of Directors, although the Executive Committee informs the Board of Directors about the matters dealt with and the decisions adopted in its meetings.

Audit and Regulatory Compliance Committee

The Audit and Regulatory Compliance Committee assists the Board of Directors in its function of overseeing and controlling the Issuer by means of the evaluation of the Issuer's auditing system, verification of the independence of the external auditor and review of the internal control systems. The role of this committee is fundamentally informative and consultative, although, on an exceptional basis, the Board of Directors may delegate decision-making powers to it.

At the date of this Offering Circular, the Audit and Regulatory Compliance Committee was composed of the following four members:

Name	Position
Mr Gonzalo de la Hoz Lizcano	Chairman (External Independent)
Mr Fernando Masaveu Herrero	Member (External Proprietary)
Mr Jaime Terceiro Lomba	Member (External Independent)
Mr Rafael Mateu de Ros Cerezo	Member (External Independent)
Mrs Gloria Calvo Díaz	Secretary

Risk Committee

The Risk Committee monitors the market and the operational credit risks affecting the Issuer's activity. It continuously evaluates the overall risk assumed by the Issuer and its risk strategy and contributes to establish rationale compensation policies and practices.

As at the date of this Offering Circular, the Risk Committee is composed of the following four members:

Name	Position
Mr Jaime Terceiro Lomba	Chairman (External Independent)
Mr Fernando Masaveu Herrero	Member (External Proprietary)
Mr Gonzalo de la Hoz Lizcano	Member (External Independent)
Mr Rafael Mateu de Ros Cerezo	Member (External Independent)
Mrs Gloria Calvo Díaz	Secretary

Remuneration Committee

The role of the Remuneration Committee is largely informative and consultative. Its principal duty is to assist the Board of Directors in its function of implementing and overseeing the compensation of Directors and Senior Management of the Group.

As at the date of this Offering Circular, the Remuneration Committee is composed of the following four members:

Name	Position
Mrs Rosa María García García	Chairman (External Independent)
Mr Jaime Terceiro Lomba	Member (External Independent)
Mr Gonzalo de la Hoz Lizcano	Member (External Independent)
Mr Rafael Mateu de Ros Cerezo	Member (External Independent)
Mrs Gloria Calvo Díaz	Secretary

Appointments and Corporate Governance Committee

The role of the Appointments and Corporate Governance Committee is largely informative and consultative. Its principal duties are to assist the Board of Directors in its function of the appointment, re-election, termination and compensation of Directors and Senior Management of the Group, to ensure that the Directors receive all necessary information for the proper discharge of their duties, to evaluate the Board of Directors and its committees, and to ensure that the Issuer's rules of governance are observed.

As at the date of this Offering Circular, the Appointments and Corporate Governance Committee is composed of the following four members:

Name	Position
Mr Rafael Mateu de Ros Cerezo	Chairman (External Independent)
Mr Marcelino Botín-Sanz de Sautuola y Naveda	Member (External Proprietary)
Mr Jaime Terceiro Lomba	Member (External Independent)
Mr Rafael Mateu de Ros Cerezo	Member (External Independent)

Name	Position
Mrs Gloria Calvo Díaz	Secretary

Senior Management

The following table lists the Senior Management of the Issuer.

Name	Position	Principal activities outside the Issuer
Mr Fernando Moreno Marcos	Commercial Banking Management	Director (Intermobiliaria, S.A.), Vice-Chairman (Bankinter Seguros Generales, S.A. de Seguros y Reaseguros), Vice-Chairman (Seguros de Vida, S.A. de Seguros y Reaseguros), Director (Bankinter Consumer Finance, E.F.C., S.A.)
Mrs Gloria Calvo Díaz	General Secretary and Secretary to the Board	Director (Bankinter Gestión de Activos, S.G.I.I.C.), Director (Bankinter Consumer Finance, E.C.F., S.A.), Director (Bankinter Global Services, S.A.)
Mr Jacobo Díaz García	Corporate Development, Products and Markets Management	Director (Bankinter Gestión de Activos, S.G.I.I.C.), Director (Bankinter Global Services, S.A.), Director (Bankinter Securities, S.V., S.A.)
Mrs Gloria Hernández García	Finance and Capital Market Management	Director (Gamesa, S.A.), Director (Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros), physical representative of Chairman (Bankinter Securities, S.V., S.A.), Director (Bankinter Luxembourg, S.A.)
Mr Eduardo Ozaita Vega	Corporate Banking Management	–
Mrs Gloria Ortiz Portero	Digital Banking Management	Director (Intermobiliaria, S.A.), Director (BK Sociedad de Financiación), Director (Bankinter Consumer Finance, S.A.), Director (Bankinter Emisiones)
Mr Iñigo Guerra Azcona	Investment Banking Management	–

There are no actual or potential conflicts of interest between the duties to the Issuer of any of the members of the Senior Management referred to above and their respective private interests and/or other duties.

The business address of each member of the Board of Directors and the other members of the Issuer's management mentioned above is Paseo de la Castellana 29, Madrid.

Employees

The number of employees of the Group as at 31 December 2015 amounted to 4,405, compared with 4,185 at 31 December 2014, of which 2,173 were men and 2,232 women.

As at 31 December 2015, the number of employees in Spain was 4,386 (19 abroad[1]).

Tax and legal proceedings

As at the date of this Offering Circular, the Issuer is party to various tax and legal proceedings and claims arising in its ordinary course of business. Based on the procedural status of these proceedings and the advice of legal counsel and company directors, none of these actions, individually or in aggregate, is material, and none is expected to result in a material adverse effect on the Group's financial position, the results of operations or liquidity, either individually or in the aggregate. The Group's management believes that adequate provisions have been made in respect of these tax and legal proceedings and considers that the possible contingencies that may arise from on-going lawsuits are not sufficiently significant to require disclosure to the markets.

Recent events

Acquisition of the business of Barclays Retail & Wealth Portugal and Barclays Insurance Portugal

On 1 April 2016, the Issuer acquired the business of Barclays Retail & Wealth Portugal.

The consideration paid by the Issuer for this acquisition was €86 million, which represents 0.4 times book value. This consideration may be adjusted in the next months in accordance with the terms and conditions of the sale and purchase agreement.

The acquisition increased Bankinter's main operative and balance ratios between 8 per cent. and 20 per cent..

On the same date, Bankinter Seguros de Vida (a company jointly owned by Bankinter and Mapfre) completed the acquisition of Barclays Insurance Portugal. Barclays Insurance Portugal has 930 employees, more than €1,000 million of assets under management and obtained €150 million in premiums and €12.7 million of net profit in 2014.

The Issuer is starting an integration process of the employees, teams, operative systems, IT systems, policies and business models which will last until the end of 2016.

ATM cash machines' fee

On 1 January 2016, Royal Decree-law 11/2015, of 2 October came into force by which banks owning ATM cash machines are competent to establish the ATM cash machines' fee to the card issuer's bank, which may decide if it passes on such fee to its clients.

Bankinter offers to its clients a free network of 8,143 ATM cash machines and has entered into bilateral agreements with five bank groups at national level – Grupo Banco Popular, Grupo Cajamar, Laboral Kutxa, Grupo Caja Rural and Deutsche Bank – allowing its clients to freely withdraw cash from ATM cash machines in all of them.

[1] Luxembourg.

MARKET INFORMATION

The Ordinary Shares of Bankinter are listed on the Spanish Stock Exchanges of Madrid and Barcelona, which are regulated markets for the purposes of MiFID, under the ticker symbol "*BKT*".

The Spanish securities market for equity securities consists of the Spanish Stock Exchanges (as defined in the Conditions) and the AQS. The AQS links the four Spanish Stock Exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The Spanish securities markets are regulated by the CNMV.

AQS

The AQS was founded in 2 November 1995, substituting the computer assisted trading system known as *Sistema de Interconexion Bursatil*, which had been in place since 1989. The principal feature of the system is the computerised matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or cancelled until executed. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by *Sociedad de Bolsas, S.A.* (*Sociedad de Bolsas*), a corporation owned by the company that manages the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of a Spanish Stock Exchange.

In a pre-opening session held from 8:30 to 9:00 (Madrid time) each trading day, an opening price is established for each security traded on the AQS based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the AQS) and after giving notice to the CNMV, Sociedad de Bolsas may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price or modify the reference price.

The computerised trading hours are from 9:00 to 17:30 (Madrid time). During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "*static*" range of the reference price (the price resulting from the closing auction of the immediately preceding trading day or the immediately preceding volatility auction in the current trading session), provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "*dynamic*" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and ask orders for a security within the computerised system which exceed any of the above "*static*" and/or "*dynamic*" ranges, trading on the security is automatically suspended and a new auction, or volatility auction, is held where a new reference price is set, and the "*static*" and "*dynamic*" ranges will apply over such new reference price. The "*static*" and "*dynamic*" ranges applicable to each particular security are set up and reviewed periodically by Sociedad de Bolsas. From 17:30 to 17:35 (Madrid time), orders can be entered, modified or cancelled, but are not executed.

Between 17:30 and 20:00 (Madrid time), trades may occur outside the computerised matching system without prior authorisation of Sociedad de Bolsas (provided such trades are communicated to Sociedad de Bolsas), at a price within the range of 5 per cent. above the higher of the average price and closing price for the day and 5 per cent. below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and if, among other things, the trade involves more than €300,000 and more than 20 per cent. of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to Sociedad de Bolsas before 20:00 (Madrid time). At any time trades may take place (with the prior authorisation of Sociedad de Bolsas) at any price if:

- the trade involves more than €1.5 million and more than 40 per cent. of the average daily trading volume of the stock during the preceding three months;
- the transaction derives from a merger or spin-off, or from the reorganisation of a group of companies;
- the transaction is executed for the purpose of settling litigation or completing a complex set of contracts; or
- Sociedad de Bolsas finds other appropriate cause.

Information with respect to the computerised trades between 9:00 and 17:30 (Madrid time) is made public immediately, and information with respect to trades outside the computerised matching system is reported to the Sociedad de Bolsas by the end of the trading day and published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the AQS are cleared and settled through Iberclear. BME Group is currently implementing a very pervasive reform of the Clearing, Settlement & Registry System in Spain. The reform introduces three fundamental changes that, in turn, involve a number of operating modifications. Such changes include: (a) a new registry system based on balances; (b) the introduction of a new Central Counterparty (**CCP**) (BME Clearing); and (c) the integration of the current CADE & SLCV into a unique platform.

Law 32/2011, of 4 October, which amends Law 24/1988, of 28 July, on the securities market (*Ley 32/2011, de 4 de octubre, por la que se modifica la Ley 24/1988, de 28 julio, del Mercado de Valores*), anticipated such changes that will substantially modify the abovementioned system. The new system implementation is taking place in two different stages. It is expected that during April 2016, the CCP implementation and migration of the equity settlement system to the new platform will take place. On or around 18 September 2017 the fixed income settlement system will be incorporated to the new platform and the migration to TARGET2-Securities will be accomplished.

In this context, the changes to the clearing and settlement system approved by means of the Royal Decree 878/2015, of 2 October, on settlement, clearing and registry of transferrable securities in book entry form, on the legal regime of central securities depositories and central counterparties and transparency requirements of issuers of securities admitted to trading in a secondary official market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores*

negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial) (**Royal Decree 878/2015**) entered into force on 3 February 2016 as part of the first stage of the above mentioned reform.

As a result of these changes, various operating modifications are currently undergoing in the Spanish clearing and settlement system, which has also required the approval of new rules of Iberclear by the CNMV on 22 December 2015 (entered into force on 3 February 2016).

Only participating entities of the Iberclear are entitled to use it, and access to become a participating entity is restricted to brokers and broker-dealers authorised to render custody services, credit institutions, the Bank of Spain, certain public entities, other settlement and clearing systems and other CCPs. The Iberclear is owned by Spanish Exchanges and Markets, Holding Company of Markets and Financial Systems (*Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*), a holding company which holds a 100 per cent. interest in each of the Spanish official secondary markets and settlement systems. The clearance and settlement system and its participating entities are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book-entry form. Iberclear, which manages the clearance and settlement system, maintains a central registry with different types of accounts reflecting the number of shares held by each of its participating entities on its own behalf as well as the number of shares held on behalf of third parties. Each participating entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name; or
- the investor appearing in the records of the participating entity as holding the shares.

As part of the reform of the Clearing, Settlement & Registry System described above, and it is expected that as from 27 April 2016, Iberclear will introduce the "*T+2 Settlement System*" by which the settlement of any transactions must be made within two business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish Stock Exchange requires the participation of a Spanish relevant registrar participating entities (*entidad participante registradora*) in Iberclear. To evidence title to shares, at the owner's request the relevant registrar participating entity (*entidad participante registradora*) can issue a certificate of ownership. If the owner is a participating entity or if the relevant participating entity manages third party individual accounts, Iberclear Depositary is in charge of the issuance of the certificate with respect to the shares held in the participating entity's name.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositories for Euroclear and Clearstream, Luxembourg and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, and the management regulations of Clearstream and the instructions to Participants of

Clearstream as amended from time to time, as applicable. Persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited (*investors*) shall have the right to receive the number of shares equal to the number of shares so credited, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees described below, if any, and obtaining the relevant recording in the book-entry registries kept by the members of Iberclear.

Under Spanish law, only the record holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear or its nominee or Clearstream or its nominee will be the sole record holder of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, until such time as investors exercise their rights to withdraw such shares and cause them to obtain the recording of the investor's ownership of the shares in the book-entry registries kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. Each of Euroclear and Clearstream will endeavour to inform investors of any significant events of which they have notice affecting the shares recorded in the name of Euroclear or its nominees and Clearstream or its nominees and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as it shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of proxies, powers of attorney or other similar certificates for delivery to the Bank, or its agent or (ii) voting of such shares by Euroclear or its nominees and Clearstream or its nominees in accordance with the instructions of investors.

If the Bank offers or causes to be offered to Euroclear or its nominees and Clearstream or its nominees, as the record holders of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavour to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of its regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

DESCRIPTION OF THE SHARE CAPITAL

The following summary describes all material considerations concerning the share capital of the Issuer and briefly describes all material provisions of its by-laws and Spanish law.

The issued share capital of the Issuer as of the date of this Offering Circular is €269,659,846.20 represented by a single series and class of 898,866,154 shares, with a nominal value per ordinary share of €0.30, fully subscribed and paid up (the **Ordinary Shares**). All of the Ordinary Shares have equal voting and economic rights. Residents and non-residents of Spain may hold and vote shares of the Issuer subject to the restrictions set forth below.

As of the date of this Offering Circular, there are no outstanding issuances of convertible instruments made by Bankinter or any of the companies of its Group.

Historical price of the Ordinary Shares

The following table sets forth the price of the Issuer's Ordinary Shares for the years 2014 and 2015 and for the period from 4 January 2016 to 26 April 2016:

	Average	Minimum	Maximum	Final
2016 (4 January 2016 through to 26 April 2016).....	6.237	5.714	6.800	6.713
2015	6.557	5.881	7.400	6.554
2014	6.112	4.930	7.437	6.701

Major Shareholders

At the date of this Offering Circular, the Issuer's direct and indirect significant shareholders are the following:

Significant + 3%	Direct	Indirect	Total	%
Mr Jaime Botín Sanz de Sautuola	10,061	205,580,188[(1)]	205,590,249	22.872
Standard Life Investments Ltd.	-	53,857,030	53,857,030	5.992
Corporación Masaveu, S.A.	44,959,730	-	44,959,730	5.002
Blackrock Inc.	-	31,717,118	31,717,118	3.529

Note:

(1) Through the company Cartival, S.A.

Information regarding significant shareholders of the Issuer can be found on the CNMV's website (www.cnmv.es).

Bankinter's major shareholders do not have voting rights which are different from those held by the rest of its shareholders.

The Issuer does not know the existence of any natural or legal person which exercises or can exercise control over the Bank in terms of Article 5 of the Spanish Securities Market Law.

Form and Transfer

The shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise their shareholders' rights, though joint holders are jointly and severally liable vis-à-vis the Issuer for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry of shares reflecting for each of its participating entities (*entidades participantes*) the number of shares held by such entities for their own account, as well as the amount of such shares held on behalf of their customers. Each participating entity in turn maintains a detailed register of the owners of such shares. The shares must be entered in the corresponding register in the name of the person or persons that own them. The shareholders and holders of the limited real rights or encumbrances on the shares may obtain legitimation certificates (*certificados de legitimación*) as provided for under the laws governing shares represented by book entries.

As a general rule, transfers of shares quoted on a Spanish Stock Exchange must be made through or with the participation of a member of a Spanish Stock Exchange that is an authorised broker or dealer by recording these transfers in the book-entry registry maintained by Iberclear and its participating entities. The transfer of shares may be subject to certain fees and expenses.

Dividend and Liquidation Rights

Payment of dividends is proposed by the Board of Directors and must then be authorised by the Issuer's shareholders at a General Shareholders' Meeting. Shareholders participate in such dividends for each year from the date such dividends are agreed by a General Shareholders' Meeting. Spanish law requires each company to contribute at least 10 per cent. of its profits for the year to a legal reserve each year until the balance of such reserve is equivalent to at least 20 per cent. of such company's issued share capital. Company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. According to Spanish law, dividends may only be paid out from the portion of profits (after the necessary transfer of legal reserves) or distributable reserves that exceed the Issuer's amortisable goodwill and its incorporation, research and development expenses, and only if the value of the Issuer's net worth is not, and as a result of distribution would not be, less than its share capital plus legal reserve. In accordance with Article 947 of the Spanish Commercial Code of 22 August 1885, as amended (the **Spanish Commercial Code**), the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

With regard to the tax implications derived from dividends paid by the Issuer. See "*Taxation — Taxation on Ownership and Transfer of Ordinary Shares — Direct taxation — Taxation of dividends*".

Upon the Issuer's liquidation, its shareholders would be entitled to receive proportionately any assets remaining after the payment of the Issuer's debts and taxes and expenses of the liquidation.

The following table sets forth the dividends distributed by the Issuer for the years 2014, 2015 and 2016:

Year	Type	Payment day(s)	Ex-dividend day	Gross amount (euro)	Total gross amount of dividend paid per Ordinary Share (euro)
2014					
1st Interim.....	Ordinary	04/01/2014	06/01/2014	0.048313	0.03816727
2nd Interim	Complementary	05/04/2014	07/04/2014	0.0385271	0.03043641
3rd Interim	Ordinary	03/05/2014	05/05/2014	0.02211170	0.01746824
	Ordinary	02/08/2014	04/08/2014	0.02732690	0.02158825
4th Final.....	Ordinary	01/11/2014	03/11/2014	0.0273254	0.02158707
2015					
1st Interim.....	Complementary	21/03/2015	23/03/2015	0.07681390	0.0614511
2nd Interim	Ordinary	27/06/2015	29/06/2015	0.04852290	0.03881832
3rd Interim	Ordinary	03/10/2015	05/10/2015	0.05207430	0.04191981
4th Final.....	Ordinary	26/12/2015	28/12/2015	0.05207350	0.04191917
2016					
1st Interim.....	Complementary	19/03/2016	21/03/2016	0.05649030	0.04575714

Attendance and Voting at General Shareholders' Meetings

Each €180 of nominal value of the share capital of the Issuer (equivalent to 600 shares) entitles the shareholder to attend the General Shareholders' Meeting. Shares may be voted by written proxy, and proxies may be given to another person. Proxies must be in writing and are valid only for a single meeting, subject to limited exceptions under the Spanish Companies Act.

Each share of the Issuer's share capital entitles the shareholder to one vote.

Pursuant to the by-laws of the Issuer and the Spanish Companies Act, General Shareholders' Meetings may be either ordinary or extraordinary. Ordinary General Shareholders' Meetings must be convened within the first six months of each fiscal year on a date fixed by the Board of Directors. As a general rule, Extraordinary General Shareholders' Meetings may be called from time to time by the Board of Directors at its discretion or at the request of shareholders representing at least 3 per cent. of the Issuer's share capital. Notices of all General Shareholders' Meetings must be published in the Spanish Commercial Registry Official Gazette (*Boletín Oficial del Registro Mercantil*) or in one of the leading daily newspapers in Spain and on the CNMV and the Issuer websites. The interval between the first and second calls for a General Shareholders' Meeting must be at least 24 hours. The notice must include the date and place of the first call, the agenda of the meeting, the date on which shareholders need to be registered as such in order to attend and vote at the meeting, the place and form in which information related to the proposed resolutions can be obtained by the shareholders, the webpage where such information will be available, and clear instructions on how shareholders can attend and vote in the General Shareholders' Meeting. It may also state the date on which, if applicable, the meeting is to be held on the second call.

Shareholders representing at least 3 per cent. of the share capital of the Issuer have the right to request the publication of an amended notice including one or more additional agenda items to the Ordinary

General Shareholders' Meeting and to add new resolution proposals to the agenda of any General Shareholders' Meeting, within the first five days following the publication of the agenda.

At Ordinary General Shareholders' Meetings, shareholders are asked to approve the financial statements for the previous fiscal year, the management and the application of the profit or loss attributable to the Issuer. All other matters that can be decided by a General Shareholders' Meeting may be addressed at either Ordinary or Extraordinary General Shareholders' Meetings. Shareholders can vote on these matters at an Ordinary General Shareholders' Meeting if such items are included on the meeting's agenda. The by-laws of the Issuer provide that, in order to facilitate the shareholders' attendance to the meetings, shareholders shall be provided with registered admission cards (*tarjetas de admisión*). Admission cards can be obtained at any time up to five days before a given General Shareholders' Meeting. Admission cards include the number of votes corresponding to their holders at the relevant General Shareholders' Meeting.

The by-laws of the Issuer and the Spanish Companies Act provide that, on the first call of a General Shareholders' Meeting, a duly constituted General Shareholders' Meeting requires a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy. On the second call, there is no quorum requirement.

Resolutions relating to ordinary matters may be adopted upon the affirmative vote of a majority of votes cast at such meeting. However, the Spanish Companies Act and the by-laws of the Issuer provide that the consideration of extraordinary matters such as the issuance of bonds, changes in the share capital structure, cancellation or restriction of the preferential subscription rights to acquire new shares, mergers, spin-offs, changes in the corporate form, global assignment of assets and liabilities, dissolution, transfer of the registered office abroad and amendment of the by-laws in general require on first call a quorum of at least 50 per cent. of the issued voting share capital, present in person or by proxy, and on second call, the presence of shareholders representing at least 25 per cent. of the issued voting share capital, present in person or by proxy. If, after the second call, the shareholders present or represented constitute more than 25 per cent. of the issued voting share capital but less than 50 per cent., present in person or by proxy, resolutions relating to such extraordinary matters may be adopted only with the approval of two-thirds of the votes validly cast at such meeting.

A General Shareholders' Meeting at which 100 per cent. of the share capital is present or represented is validly constituted even if no notice of such meeting was given, and, upon unanimous agreement, shareholders may consider any matter at such meeting. A resolution passed in a General Shareholders' Meeting is binding on all shareholders. However, it may be contested if such resolution is: (i) contrary to Spanish laws or the company's by-laws; or (ii) prejudicial to the company's interests and beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, Directors and interested third parties. In the case of resolutions prejudicial to the company's interests or contrary to its by-laws, such right is extended to shareholders who attended the General Shareholders' Meeting and recorded their opposition in the minutes of the meeting, to shareholders who were absent and to those unlawfully prevented from casting their vote, as well as to members of the Board of Directors. In certain circumstances (such as a substantial modification of corporate purpose or change of the corporate form, transfer of registered office abroad, intra-European Union merger with transfer of registered office to another European Union country or incorporation of a limited liability European holding company if the dissenting shareholder is a partner of the promoter companies), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were to

be exercised, the company would be required to purchase or offset the relevant share ownership at prices determined in accordance with established formula or criteria relating to the average price of the shares in the Spanish Stock Exchanges within certain periods of time.

Under the Spanish Companies Act, shareholders who voluntarily aggregate their shares so that they are equal to or greater than the result of dividing the total share capital by the number of Directors have the right to appoint a corresponding proportion of the members of the Board of Directors, provided that the relevant vacancy or vacancies exist within the Board of Directors. Shareholders who exercise this right may not vote on the appointment of other Directors.

Preferential subscription Rights and Increase of Share Capital

Pursuant to Spanish law, shareholders have preferential subscription rights to subscribe for any new shares and for bonds convertible into shares. However, a resolution passed at a General Shareholders' Meeting or a meeting of the Board of Directors acting by delegation may, in certain circumstances, waive such preferential subscription rights, provided that the relevant requirements of Spanish law (particularly Articles 308, 504 and 505 of the Spanish Companies Act) are met. In any event, preferential subscription rights will not be available in the event of an increase in the share capital of the Issuer on a conversion of convertible bonds into shares, a merger in which new shares are issued as consideration or in the case of a capital increase with non-monetary contributions.

Preferential subscription rights are transferable, may be traded on the AQS of the Spanish Stock Exchanges and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices.

In the case of a listed company, under Articles 506 and 511 of the Spanish Companies Act, when the shareholders authorise the Board of Directors to issue new shares or bonds convertible into shares, they can also authorise the Board of Directors to not grant preferential subscription rights in connection with such new shares or bonds convertible into shares if it is in the best interest of the company.

The General Shareholders' Meeting held on 15 March 2012 resolved to delegate to the Issuer's Board of Directors, with power of substitution in favour of the Executive Committee within five years: (i) the decision to increase its share capital by up to 50 per cent. of the share capital pursuant to the provisions of Article 297 of the Spanish Companies Act, and with the possibility of incomplete subscription pursuant to the provisions of Article 507 of the Spanish Companies Act; and (ii) the decision to waive such preferential subscription rights.

The General Shareholders' Meeting held on 21 March 2013 resolved to increase its share capital in the amount of €93,967,689 charged to assets revalorisation reserves.

The General Shareholders' Meeting held on 24 March 2014 resolved to delegate to the Issuer's Board of Directors, with power of substitution in favour of the Executive Committee within five years: (i) the decision to issue fixed income notes convertible into and/or exchangeable for Bank's shares in a maximum amount of €1,000 million and the execution of such issue pursuant to the provisions of Articles 285 to 290, 297.1.b) and 511 of the Spanish Companies Act; (ii) the decision to establish the criteria for the determination of the bases and modalities of the conversion; and (iii) the decision to establish the bases and modalities of the conversion with the possibility of waiving totally or partially the preferential subscription rights and increase its share capital by the amount necessary, with power

of substitution in favour of the Executive Committee, rendering null and void the authorisations granted by the prior General Shareholders' Meetings.

Shareholder Suits

Shareholders in their capacity as shareholders may bring actions challenging resolutions adopted at General Shareholders' Meetings. The court of first instance in the company's corporate domicile has exclusive jurisdiction over shareholder suits.

Under the Spanish Companies Act, Directors are liable to the company and the shareholders and creditors of the company for acts and omissions contrary to Spanish law or the company's by-laws and for failure to carry out the duties and obligations required of Directors. Directors have such liability even if the transaction in connection with which the acts or omissions occurred is approved or ratified by the shareholders.

The liability of the Directors is joint and several, except to the extent any Director can demonstrate that he or she did not participate in decision-making relating to the transaction at issue, was unaware of its existence or being aware of it, did all that was possible to mitigate any damages or expressly disagreed with the decision-making relating to the transaction.

Legal Restrictions on Acquisitions of Shares in Spanish Banks

Certain provisions of Spanish law require notice to the Bank of Spain prior to the acquisition by any individual or corporation of a significant holding of shares of a Spanish bank.

Any natural or legal person or such persons acting in concert, who have taken a decision either to acquire, directly or indirectly, a significant holding (*participación significativa*) in a Spanish bank or to further increase, directly or indirectly, such a significant holding in a Spanish bank as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 30 per cent. or 50 per cent. or so that the bank would become its subsidiary, must first notify the Bank of Spain, indicating the size of the intended holding and other relevant information. A significant holding for these purposes is defined as a direct or indirect holding in a Spanish bank which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that bank. In accordance with Article 23 of Royal Decree 84/2015, of 13 February, in any case, "*significant influence*" shall be deemed to exist when there is the capacity to appoint or dismiss a board member.

As soon as the Bank of Spain receives the notice, the Bank of Spain will request the Spanish Anti-Money Laundering Authority (*Servicio Ejecutivo de la Comisión para la Prevención del Blanqueo de Capitales e Infracciones Monetarias* - **SEPBLAC**) for a report, and the SEPBLAC will submit such report within 30 business days from the day following the day of receipt of such request.

If the acquisition is carried out and the required notice is not given to the Bank of Spain or if the acquisition is carried out before the 60 business day-period following the giving of notice elapses, or if the acquisition is opposed by the Bank of Spain, then there shall be the following consequences: (A) the voting rights corresponding to the acquired shares may not be exercised or, if exercised, will be deemed null; (B) the Bank of Spain may seize control of the bank or replace its Board of Directors; and (C) a fine may be levied on the acquirer. The Bank of Spain has 60 business days after the receipt of any such notice (the Bank of Spain will acknowledge receipt in written within two business days from the date of receipt of the notification by the Bank of Spain to the extent such notification

includes all the information required by Article 24 of Royal Decree 84/2015) to object to a proposed transaction. In case the notification does not have all the information required, the acquirer will be required to provide the outstanding information within ten business days. The objection by the Bank of Spain may be based on finding the acquirer unsuitable on the basis of its commercial or professional reputation, its solvency or the transparency of its corporate structure, among other things. If no such objection is raised within the 60 business day-period, the authorisation is deemed to have been granted.

The above assessment term may be suspended in one occasion, between the request of information and the submission of information, for a maximum term of 20 business days (or, under certain circumstances, this term may be of 30 business days).

Any natural or legal person, or such persons acting in concert, who has acquired, directly or indirectly, a holding in a Spanish bank so that the proportion of the voting rights or of the capital held reaches or exceeds 5 per cent., must immediately notify in writing the Bank of Spain and the relevant Spanish bank, indicating the size of the acquired holding.

Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a significant holding in a Spanish bank must first notify the Bank of Spain, indicating the size of his intended reduced holding. Such a person shall likewise notify the Bank of Spain if he has taken a decision to reduce his qualifying holding so that the proportion of the voting rights or of the capital held would fall below 20 per cent., 30 per cent. or 50 per cent. or so that the bank would cease to be its subsidiary. Failure to comply with these requirements may lead to sanctions being imposed on the defaulting party.

Spanish banks are required, on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below one of the thresholds referred to above, to inform the Bank of Spain of those acquisitions or disposals.

Furthermore, credit entities are required to inform the Bank of Spain as soon as they become aware of any acquisition or transfer of their share capital that crosses any of the above percentages. In addition, credit entities must inform the Bank of Spain, during the month following each natural quarter, about their shareholding specifying all shareholders considered financial institutions by the end of such month or those who have more than 0.25 of the bank's share capital (or 1 per cent. in case of credit unions). If the Bank of Spain determines at any time that the influence of a person who owns a qualifying holding of a bank may adversely affect that bank's management or financial situation, it may request that the Spanish Ministry of Economy and Competitiveness: (1) suspend the voting rights of such person's shares for a period not exceeding three years; (2) seize control of the bank or replace its Board of Directors; or (3) in exceptional circumstances revoke the bank's licence. A fine may also be levied on the person owning the relevant significant shareholding.

Furthermore, any person that has directly or indirectly acquired 5 per cent. or more of the share capital of a Spanish credit institution must immediately inform in writing both to the Bank of Spain and to the relevant credit institution indicating the amount of the shareholding.

Reporting Requirements

Acquisition of shares

Pursuant to Royal Decree 1362/2007, of October 19 (the **Royal Decree 1362/2007**), any individual or legal entity who, by whatever means, purchases or transfers shares which grant voting rights in a company for which Spain is the country of origin (e*stado de origen*) (as defined therein) and which is listed on an official secondary market or other regulated market in the EU, must notify the relevant issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a 3 per cent. threshold of the company's total voting rights. The notification obligations are also triggered at thresholds of 5 per cent. and multiples thereof (excluding 55 per cent., 65 per cent., 85 per cent., 95 per cent. and 100 per cent.).

The individual or legal entity required to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four stock exchange business days from the date on which the transaction is acknowledged (the first day of the notification period is the stock exchange business day following the day on which the relevant acquisition or transfer is effective in case of over-the-counter transfers).

Should the individual or legal entity effecting the transaction be a non-resident of Spain, notice must also be given to the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (a department of the Ministry of Economy and Competitiveness). See "*Restrictions on Foreign Investment*" below.

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the company and the CNMV of the holding of a significant stake in accordance with the regulations.

Further, following the implementation of Directive 2013/50/EU of the European Parliament and of the Council, of 22 October 2013 (**Directive 2013/50/EU**) in Spain by means of the Second Final Provision of Royal Decree 878/2015, currently in force, the scope of financial instruments which are disclosable has been expanded. Pursuant to Royal Decree 1362/2007, as amended, financial instruments with similar economic effect to shares and entitlement to aggregate shares (even cash settled) are disclosable if they reach the relevant thresholds. Additionally, aggregation rules currently impose the obligation to aggregate holding of shares and holding of financial instruments when calculating the holding. Current forms are being reviewed by the CNMV to incorporate the necessary changes upon the implementation of Directive 2013/50/EU. Such forms will apply to future disclosures when approved by the CNMV.

Should the individual or the legal entity effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of 5 July), the threshold that triggers the obligation to disclose the acquisition or disposition of shares is reduced to 1 per cent. (and successive multiples thereof).

All members of the Board of Directors must report to both the company and the CNMV the percentage and number of voting rights in the company held by them at the time of becoming or ceasing to be a member of the Board of Directors. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any compensation plans.

Members of the Senior Management must also report any share-based compensation that they may receive pursuant to any compensation plans or any subsequent amendment to such plans. Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, of 11 November (implementing European Directive 2004/72/EC) (**Royal Decree 1333/2005**) developing the Spanish Securities Market Law, regarding market abuse, which defines Senior Management (*Directivos*) as those "*high-level employees in positions of responsibility with regular access to insider information (información privilegiada) related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer*".

In addition, pursuant to Royal Decree 1333/2005, any member of the Board of Directors and the Senior Management, or any parties closely related to any of them, as such terms are defined therein, must report to the CNMV any transactions carried out with respect to the company's shares or derivatives or other financial instruments relating to the company's shares within five business days of such transaction. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

Acquisition of own shares

The Issuer is required to report to the CNMV any acquisition of its own shares which, together with all other acquisitions since the last notification, reaches or exceeds 1 per cent. of its share capital (irrespective of whether any own shares have been sold in the same period). In such circumstances, the notification must include the number of shares acquired since the last notification (detailed by transaction), the number of shares sold (detailed by transaction) and the resulting net holding of treasury shares.

Shareholder agreements

The Spanish Securities Market Law and Articles 531, 533 and 535 of the Spanish Companies Act require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a General Shareholders' Meeting or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares. If any shareholders enter into such agreements with respect to the Issuer's shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and the CNMV and file such agreements with the appropriate Mercantile Registry. Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the Spanish Securities Market Law.

Such shareholders' agreement has no effect with respect to the regulation of the right to vote in General Shareholders' Meetings and restrictions or conditions on the free transferability of shares and

bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the company.

Net Short Positions

Pursuant to Regulation (EU) No. 236/2012 of the European Parliament and the Council, of 14 March, on Short Selling and certain aspects of credit default swaps (**Regulation 236/2012**), any net short position on shares listed on the Spanish Stock Exchanges that equals 0.2 per cent. of the relevant issuer's share capital and any increases or reductions thereof by 0.1 per cent. are required to be disclosed to the CNMV by no later than 15.30 on the first trading day following the transaction. If the net short position reaches 0.5 per cent., the CNMV will disclose the net short position to the public. Regulation 236/2012 restricts uncovered short sales in shares.

Notwithstanding the foregoing, in accordance with Regulation 236/2012, under exceptional circumstances, the CNMV may require natural or legal persons who have net short positions in relation to a specific financial instrument or class of financial instruments to notify it or to disclose to the public details of the position where the position reaches or falls below a notification threshold fixed by the CNMV.

In addition, as was the case in 2012, the CNMV may impose restrictions on short selling and similar transactions in exceptional circumstances in accordance with Regulation 236/2012.

Share Repurchases

Pursuant to Spanish corporate law, the Issuer may only repurchase its own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorised by the General Shareholders' Meeting by a resolution establishing the acquisition mechanisms, the maximum number of shares to be acquired, the minimum and maximum acquisition price and the duration of the authorisation, which may not exceed five years from the date of the resolution;
- the aggregate par value of the shares repurchased, together with the aggregate par value of the shares already held by the Issuer and its subsidiaries, must not exceed 10 per cent. of its share capital;
- the acquisition may not lead to net equity being lower than the share capital plus non-distributable reserves in accordance with Spanish corporate law and the by-laws of the Issuer; and
- the shares repurchased must be fully paid up, and must be free of ancillary contributions (*prestaciones accesorias*).

Treasury shares do not have voting rights or economic rights (e.g., the right to receive dividends and other distributions and liquidation rights), except the right to receive bonus shares, which will accrue proportionately to all of the Issuer's shareholders. Treasury shares are counted for purposes of establishing the quorum for General Shareholders' Meetings and majority voting requirements to pass resolutions at General Shareholders' Meetings.

Directive 2003/6/EC of the European Parliament and the Council, dated 28 January 2003, on insider dealing and market manipulation establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. Article 8 of this Directive 2003/6/EC establishes an exemption from the market manipulation rules regarding share buy-back programmes by companies listed on a stock exchange in an EU Member State. European Commission Regulation No. 2273/2003, dated 22 December 2003, implemented the aforementioned directive with regard to exemptions for buy-back programmes. Article 3 of this Regulation 2273/2003 states that in order to benefit from the exemption provided for in Article 8 of the Directive 2003/6/EC, a buy-back programme must comply with certain requirements established under such regulation and the sole purpose of the buy-back programme must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either of the following:

- debt financial instruments exchangeable into equity instruments; or
- employee share option programmes or other allocations of shares to employees of the issuer or an associated company.

In addition, on 19 December 2007, the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbour for the purposes of market abuse regulations.

Finally, on 18 July 2013, the CNMV published certain indicative guidelines in relation to discretionary operations with treasury shares carried out by issuers of securities. The CNMV recommends the observance by issuers of some criteria in connection with (i) the way to carry these transactions (volume, price, timeframe and internal organisation and control) and (ii) the information to be provided to the supervisor and the market. These guidelines have been observed in all the transactions that we have carried out since their publication.

Provision of Information to Shareholders

Under Spanish law, shareholders are entitled to receive certain information, including information relating to any amendment of the by-laws, an increase or reduction in the share capital, the approval of the financial statements and other major corporate events or actions.

Foreign Investment and Exchange Control Regulations

Restrictions on Foreign Investment

Spain has traditionally regulated foreign currency movements and foreign investments. However, since the end of 1991, Spain has moved into conformity with European Union standards regarding the movement of capital and services. On 23 April 1999, a new regulation on foreign investments (Royal Decree 664/1999) was approved in conjunction with the Spanish Foreign Investment Law 18/1992, to bring the existing legal framework in line with the provisions of the Treaty of the European Union. As a result, exchange controls and foreign investments have been, with certain exceptions, completely liberalised.

Subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies and transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls), and need only file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments

within the Ministry of Economy and Competitiveness following the investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, as it is the case of the Issuer, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares in book-entry form have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market, as well as investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50 per cent. of the capital of the Spanish company in which the investment is made.

The Spanish Council of Ministers, acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorisation from the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of 4 July 2003, which has as its purpose the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering (**Law 19/2003**), generally provides for the liberalisation of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents of Spain in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of the Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Finally, in addition to the notices relating to significant shareholdings that must be sent to the relevant company, the CNMV and the relevant Spanish Stock Exchanges, as described in this section under "*Reporting Requirements*", foreign investors are required to provide such notices to the Registry of Foreign Investments.

Exchange control regulations

Pursuant to Royal Decree 1816/1991, of 20 December 1991, relating to economic transactions with non-residents, and Directive 88/361/EC, receipts, payments or transfers between non-residents and residents of Spain must be made through registered entities such as banks and other financial institutions properly registered with the Bank of Spain and/or the CNMV, through bank accounts opened with foreign banks or foreign branches of registered entities or in cash or by a cheque payable to bearer.

TAXATION

Tax treatment of the Preferred Securities

Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this document:

(a) of general application, First Additional Provision of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (**Law 10/2014**), as well as Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011, of 29 July, (**Royal Decree 1065/2007**);

(b) for individuals resident for tax purposes in Spain who are Personal Income Tax (**PIT**) tax payers, Law 35/2006, of 28 November, on the PIT and on the partial amendment of the Corporate Income Tax Law, Non-Resident Income Tax Law and Wealth Tax Law, as amended (the **PIT Law**), and Royal Decree 439/2007, of 30 March, approving the PIT Regulations which develop the PIT Law, as amended (the **PIT Regulations**), along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended;

(c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax (**CIT**) taxpayers, Law 27/2014, of 27 November, on the CIT (the **CIT Law**), and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations, as amended (the **CIT Regulations**); and

(d) for individuals and entities who are not resident for tax purposes in Spain which are Non-Resident Income Tax (**NRIT**) taxpayers, Royal Legislative Decree 5/2004, of 5 March, promulgating the consolidated text of the NRIT Law, as amended, and Royal Decree 1776/2004, of 30 July, promulgating the NRIT Regulations, as amended, along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended.

The following is a brief analysis of the fiscal aspects associated with the acquisition, ownership and subsequent transfer of the Preferred Securities and with converting them into Ordinary Shares as well as the tax aspects associated with owning and subsequently transferring the Ordinary Shares.

This analysis is a general description of the tax treatment under the currently in force Spanish legislation, without prejudice of regional tax regimes in the historical territories of the Basque Country and the Community of Navarre, or provisions passed by Autonomous Region (*Comunidad Autónoma*) which may apply to investors for certain taxes.

This is not intended to be an exhaustive description of all relevant tax-related considerations for making a decision to acquire or sell Preferred Securities, nor does it address the tax consequences applicable to all investor categories, some of whom may be subject to special rules.

It is therefore recommended that investors who are interested in acquiring the Preferred Securities consult with tax experts who can provide them with personalised advice based on their particular

circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

The Issuer considers that the Preferred Securities qualify as financial assets with explicit yield, as such yield exceeds the reference rates fixed in Section 91 of the PIT Regulations, and in Section 63 of the CIT Regulations.

Indirect taxation

The acquisition and any subsequent disposal of the Preferred Securities is exempt from transfer tax, stamp duties and value added tax as provided for in Article 108 of the Spanish Securities Market Law and related provisions.

Direct taxation

Taxes on income from the Preferred Securities

(a) Individuals with tax residency in Spain

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

Income from the transfer of the Preferred Securities is computed as the difference between their transfer value and their acquisition or subscription value. Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income.

Negative income derived from the transfer of the Preferred Securities, in the event that the investor had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, shall be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

According to Section 44.5 of Royal Decree 1065/2007, the Issuer will make interest payments to individual Holders who are resident for tax purposes in Spain without withholding in the terms described under "*Reporting obligations*" below, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

Notwithstanding the above, in the case of Preferred Securities held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. which will be made by the depositary or custodian.

Withholdings can be deducted from the final PIT liability owed and may be refundable pursuant to Section 103 of the PIT Law.

The Bank will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are individuals resident in Spain for tax purposes.

(b) Spanish tax resident legal entities

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities must be included in the taxable income of legal entities with tax residency in Spain and will be subject to CIT (currently the general rate is 25 per cent.) in accordance with the rules for this tax. This general rate will not be applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions (which will be taxed at the rate of 30 per cent.). Special rates apply in respect of certain types of entities (such as qualifying collective investment institutions).

Income obtained by Spanish resident corporate investors from financial assets listed on an official OECD market will not be subject to withholding tax in accordance with Section 61(s) of the CIT Regulations.

In accordance with Section 44.5 of Royal Decree 1065/2007, there is no obligation to withhold on income payable to Spanish CIT taxpayers. Consequently, the Issuer will not withhold on interest payments under the Preferred Securities to Spanish CIT taxpayers in the terms described under "*Reporting obligations*" below, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, in the case of Preferred Securities held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. Such withholding will be made by the depository or custodian, if the Preferred Securities do not comply with the exemption requirements specified in the ruling issued by the Spanish tax authorities (*Dirección General de Tributos*) dated 27 July 2004, which requires a withholding to be made.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

The Bank will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are legal persons or entities resident in Spain for tax purposes.

(c) Non-Spanish tax resident investors

(i) Non-Spanish resident investors acting through a permanent establishment in Spain

Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are the same as those for Spanish CIT taxpayers.

The Bank will comply with the reporting obligations set forth under Spanish tax laws with respect to beneficial owners of the Preferred Securities that are individuals or legal entities not resident in Spain for tax purposes and that act with respect to the Preferred Securities through a permanent establishment in Spain.

(ii) Non-Spanish resident investors not operating through a permanent establishment in Spain

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, and which are NRIT taxpayers with no permanent establishment in Spain, are exempt from such NRIT and, provided that certain formalities as described in the section "*Reporting obligations*" below are complied with, are also exempt from withholding tax.

Wealth Tax

(a) Individuals with tax residency in Spain

According to Wealth Tax regulations, as amended, (subject to any exceptions provided under relevant legislation in an Autonomous Region (*Comunidad Autónoma*)), the net worth of any individuals with tax residency in Spain up to the amount of €700,000 is exempt from Wealth Tax in respect of tax year 2016. Therefore, they should take into account the value of the Preferred Securities which they hold as at 31 December 2016. The applicable marginal rates range between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply. In principle, as from 1 January 2017, Spanish Wealth Tax is expected to be effectively abolished. The Spanish Law 19/1991, of 6 June, on Wealth Tax (the **Spanish Wealth Tax Law**) shall provide for a 100 per cent. rebate on the Spanish Wealth Tax liability due by any Wealth Tax taxpayer (while also derogating Spanish Wealth Tax filing obligations under certain circumstances).

(b) Spanish tax resident legal entities

Spanish resident legal entities are not subject to Wealth Tax.

(c) Non-Spanish tax resident investors

To the extent that the income deriving from the Preferred Securities is exempt from NRIT, individuals who do not have tax residency in Spain who hold such Preferred Securities on the last day of any year will be exempt from Wealth Tax. Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax. The applicable rates range between 0.2 per cent. and 2.5 per cent. although some reductions may apply. Therefore, such individuals should

take into account the value of the Preferred Securities which they hold as at 31 December 2016.

As a consequence of the amendments passed by Law 26/2014, of 27 November, Non-Spanish tax resident individuals who are residents in the EU or in the EEA can apply the legislation of the region in which the highest value of the assets and rights of the individuals are located.

Non-Spanish resident legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax

(a) Individuals with tax residency in Spain

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules, being the taxpayer the transferee. The effective tax rates range between 7.65 per cent. and 81.6 per cent., depending on relevant factors, although the final tax rate may vary depending on any applicable regional tax laws.

(b) Spanish tax resident legal entities

Legal entities with tax residency in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Preferred Securities in their taxable income for Spanish CIT purposes.

(c) Non-Spanish tax resident investors

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax, will be subject to the provisions of the relevant double tax treaty.

According to the amendments passed by Law 26/2014, of 27 November, it will be possible to apply tax benefits approved in some Spanish regions to EU residents following specific rules.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

Reporting obligations

As described above, interest and other income paid with respect to the Preferred Securities will be exempt from Spanish withholding tax if the procedures for delivering to the Issuer the information set forth in Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, are complied with.

The First Additional Provision of Law 10/2014 establishes certain reporting obligations in relation to the Preferred Securities that must be met each time there is an interest payment on the Preferred Securities.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 (**Section 44**).

In accordance with Section 44 paragraph 5, before the close of business on the Business Day (as defined in the Conditions of the Preferred Securities) immediately preceding the date on which any payment of interest, principal or any amounts in respect of the early redemption of the Preferred Securities (each, a **Payment Date**) is due, the Issuer must receive from the Principal Paying Agent the following information about the Preferred Securities:

(a) the identification of the Preferred Securities with respect to which the relevant payment is made;

(b) the date on which the relevant payment is made;

(c) the total amount of the relevant payment; and

(d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain.

In particular, the Principal Paying Agent must certify the information above about the Preferred Securities by means of a certificate, on the prescribed form.

In light of the above, the Issuer and the Principal Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Preferred Securities by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer on each Payment Date, the Issuer will withhold tax at the then-applicable rate (currently 19 per cent.) from any payment in respect of the relevant Preferred Securities.

If, before the tenth day of the month following the month in which interest is paid, the Principal Paying Agent provides such information, the Issuer will reimburse the amounts withheld.

Notwithstanding the foregoing, the Issuer has agreed that, in the event that withholding tax was required by law, the Issuer, would pay such additional amounts as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except as provided in Condition 11.2.

Paragraph 8 of Section 44 of Royal Decree 1065/2007 establishes an obligation for the Issuer to disclose certain tax information to the Spanish Tax Authorities about those investors in the Preferred Securities who are Spanish Personal Income Tax or Corporate Income Tax taxpayers, or non-Spanish residents operating in Spain through a permanent establishment, and therefore the Issuer may need to obtain and disclose certain information to the tax authorities in order to comply with its obligations under the applicable legislation.

Finally, in the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will notify the Holders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

Conversion of the Preferred Securities into Ordinary Shares

(a) Individuals with tax residency in Spain

Income earned on the conversion of the Preferred Securities to Ordinary Shares, computed as the difference between the market value of the newly-issued Ordinary Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange will be considered as a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law.

The tax treatment will be the one referred to in paragraph (a) above under *"Direct taxation – Taxes on income from the Preferred Securities – Individuals with tax residency in Spain"*.

Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income obtained.

Any income obtained in the conversion will not be subject to withholding tax.

(b) Spanish tax resident legal entities

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities will be computed as the difference between the market value of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

Such income will be subject to CIT at the general rate applicable from time to time (currently 25 per cent.) in accordance with the rules for this tax.

Any income obtained in the conversion will not be subject to withholding tax.

The tax treatment will be the one referred to in paragraph (b) above under *"Direct taxation – Taxes on income from the Preferred Securities – Spanish tax resident legal entities"*.

(c) Non-Spanish tax resident investors

(i) Non-Spanish resident investors operating through a permanent establishments in Spain

Non-Spanish resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

(ii) Non-Spanish resident investors not operating through a permanent establishment in Spain

Income obtained by non-Spanish resident investors on the conversion of the Preferred Securities to Ordinary Shares will be computed as the difference between the market value of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

The tax treatment applicable to the income obtained will be the one described in paragraph (c) above under *"Direct taxation – Taxes on income from the Preferred Securities – Non-Spanish tax resident investors"*.

Taxation on Ownership and Transfer of Ordinary Shares

Indirect taxation

The subscription, acquisition and any subsequent transfer of the Ordinary Shares will be exempt from transfer tax, stamp duty and value added tax, under the terms and with the exemptions set out in Section 108 of the Spanish Securities Market Law. Additionally, no stamp duty will be levied on such subscription, acquisition and transfer.

Direct taxation

Individuals with tax residency in Spain

(a) Personal Income Tax

(i) Taxation of dividends

According to the Spanish PIT Law, the following, among others, shall be treated as gross capital income: income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at Shareholders' Meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his capacity as shareholder.

Gross capital income shall be reduced by any administration and custody expenses (but not by those incurred in individualised portfolio management) and the net amount shall be included in the relevant Spanish Holder savings taxable base and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

The payment to Spanish Holders of dividends or any other distribution will be generally subject to a withholding tax at the rate of 19 per cent. Such withholding tax will be deductible from the net PIT payable (*cuota líquida*), and if the amount of tax withheld is greater than the amount of the net PIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with the PIT Law.

(ii) Taxation of capital gains

Gains or losses recorded by a Spanish Holder, as a result of the transfer of listed shares which represent a participation in a company's equity, will qualify for the purposes of the PIT Law as capital gains or losses and will be subject to taxation according to the general rules applicable to capital gains. The amount of capital gains or losses shall be the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the listed value of the share as of the transfer date or, if higher, the agreed transfer price, less any fees or taxes incurred.

Capital gains arising from the transfer of shares by the Spanish Holders, shall be included in such Spanish Holder's savings taxable base corresponding to the period in which the transfer takes place, and any gain resulting from such compensation will be taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000. Exceptionally, capital gains

arising from the transfer of shares are not subject to withholding tax on account of PIT.

Losses arising from the transfer of shares admitted to trading on certain official stock exchanges will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses will be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

(b) Spanish Wealth Tax

Individual Spanish Holders are subject to the Spanish Wealth Tax on all their assets (such as shares in the Issuer) in the tax year 2016.

Spanish Wealth Tax Law provides that the first €700,000 of net wealth owned by an individual Spanish Holder will be exempt from taxation, while the rest of the net wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. However, this may vary by Spanish Autonomous Region (*Comunidad Autónoma*). As such, prospective Holders should consult their tax advisors.

In principle, as from 1 January 2017, Spanish Wealth Tax is expected to be effectively abolished. The Spanish Wealth Tax Law shall provide for a 100 per cent. rebate on the Spanish Wealth Tax liability due by any wealth tax taxpayer (while also derogating Spanish Wealth Tax filing obligations under certain circumstances).

(c) Spanish Inheritance and Gift Tax

Individuals resident in Spain for tax purposes who acquire shares by inheritance or gift will be subject to the Spanish Inheritance and Gift Tax (in accordance with the Inheritance and Gift Tax Law), without prejudice to the specific legislation applicable in each Autonomous Region (*Comunidad Autónoma*). The taxpayer is the transferee. The effective tax rate, after applying all relevant factors, ranges from 7.65 per cent. to 81.6 per cent. although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

Spanish tax resident legal entities and non-Spanish tax resident investors acting through a permanent establishment in Spain to which the shares are attributable

(a) Corporate Income Tax

(i) Taxation of dividends

According to Section 10 of the CIT Law, dividends from the Issuer or a share of the Issuer's profits received by corporate Spanish Holders, or by NRIT taxpayers who operate, with respect to the Issuer's shares, through a permanent establishment in Spain, to which such shares are attributable, less any expenses inherent to holding the shares, shall be included in the CIT taxable base. The general CIT tax rate is currently 25 per cent.

Dividends or profit distributions in respect of the shares obtained by corporate Spanish Holders that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer or an acquisition cost higher than €20 million; and (ii) hold such participation for at

least one year prior to the relevant distribution date or it commits to hold the participation for the time needed to complete such one-year holding period, will be exempt as a general rule.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, corporate Spanish Holders must have an indirect stake in those entities that complies with the requirements described in the previous paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer, and prepare consolidated financial statements. Prospective investors should consult their own tax advisers in order to determine whether those requirements are complied with by the relevant corporate Spanish Holders.

Should that be the case and provided that the minimum one-year holding period requirement is complied with on the distribution date in respect of the shares, dividends will not be subject to withholding tax. Otherwise, dividends will be taxed at the applicable CIT tax rate of the taxpayer and a 19 per cent. withholding will apply. This CIT withholding will be credited against the taxpayer's annual CIT due, and if the amount of tax withheld is greater than the amount of the annual CIT due, the taxpayer will be entitled to a refund of the excess withheld.

(ii) Taxation of capital gains

The gain or loss arising on transfer of the shares or from any other change in net worth relating to the shares will be included in the tax base of CIT taxpayers, or of NRIT taxpayers who operate through a permanent establishment in Spain to which such shares are attributable, in the manner contemplated in Section 10 et seq. of the CIT Law, being taxed generally at a rate of 25 per cent. CIT payers that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer or an acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant transfer date, capital gains will be exempt as a general rule. Otherwise, capital gains will be taxed at the applicable tax rate of the taxpayer.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, corporate Spanish Holders must have an indirect stake in those entities that complies with the requirements described in the precedent paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer and prepare consolidated financial statements. Prospective investors should consult their own tax advisers in order to determine whether those requirements are complied with by the relevant corporate Spanish Holders.

Income deriving from share transfers is not subject to withholding on account of CIT.

(b) Spanish Wealth Tax

Spanish resident legal entities are not subject to Wealth Tax.

(c) Spanish Inheritance and Gift Tax

Lastly, in the event of acquisition of the shares free of charge by a CIT taxpayer, the income generated for the latter will likewise be taxed according to the CIT rules, the Inheritance and Gift Tax not being applicable.

Non-Spanish Holders tax resident investors not acting through a permanent establishment in Spain to which the shares are attributable

(a) Non-Resident Income Tax

(i) Taxation of dividends

Under Spanish law, dividends paid by a Spanish resident company to a non-Spanish Holder are subject to Spanish NRIT, approved by the NRIT Law, withheld at the source on the gross amount of dividends, currently at a tax rate of 19 per cent. Certain corporate Holders resident in an EU Member State (other than a tax haven jurisdiction for Spanish tax purposes) may be entitled to an exemption from NRIT dividend withholding tax to the extent that they are entitled to the benefits of the Spanish NRIT provisions that implement the regime of the Council Directive (EU) 2015/121 of 27 January 2015 amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States. Such exemption may be available to the extent that the recipient of the dividends has held, directly or indirectly, at least 5 per cent. of the shares of the distributing entity (such minimum shareholding threshold could be lower in certain cases), or an acquisition cost higher than €20 million, without interruption for at least one year prior to the distribution date, and provided that other requirements (including specific anti-abuse rules that need to be analysed on a case-by-case basis and procedural formalities, such as the supply of a government-issued tax residence certificate) are met. Holders claiming the applicability of such exemption that have not met a minimum one-year holding period as of a given dividend distribution date (but who could meet such requirement afterwards) should be aware that the NRIT Law requires the Issuer to withhold the applicable NRIT on such dividends, and that such Holders will need to request a direct refund of such withholding tax from the Spanish tax authorities pursuant to the Spanish refund procedure described below under "*Spanish Direct Refund from Spanish tax authorities*".

In addition, Holders resident in certain countries will be entitled to the benefits of a double taxation treaty, in effect between Spain and their country of tax residence. Such Holders may benefit from a reduced tax rate or an exemption under an applicable treaty with Spain, subject to the satisfaction of any conditions specified in the relevant treaty, including providing evidence of the tax residence of the non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the non-Spanish Holder or, as the case

may be, the equivalent document specified in the Spanish Order which further develops the applicable treaty.

According to the Order of the Ministry of Economy and Finance of 13 April 2000, upon distribution of a dividend, the Issuer or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (e.g., applying the general withholding tax rate of 19 per cent.), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish Holder has entered into a contract of deposit or management with respect to shares in the Issuer held by such Holders. If the depositary of the non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence (e.g., a valid certificate of tax residence issued by the relevant tax authorities of the non-Spanish Holder's country of residence stating that, for the records of such authorities, the non-Spanish Holder is a resident of such country within the meaning of the relevant double taxation treaty, or as the case may be, the equivalent document regulated in the Order which further develops the applicable treaty) of the non-Spanish Holder's right to obtain the treaty-reduced rate or the exemption, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish Holder. For these purposes, the relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the non-Spanish Holder is not resident, domiciled or represented in Spain, the non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated 30 July 2004, and an Order dated 17 December 2010, as amended.

(ii) Taxation of capital gains

Capital gains derived from the transfer or sale of the shares will be deemed income arising in Spain, and, therefore, are taxable in Spain at a general tax rate of 19 per cent.

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains. However, capital gains derived from shares in the Issuer will be exempt from taxation in Spain in either of the following cases:

- Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any non-Spanish Holder who is tax resident of a country that has entered into a double taxation treaty with Spain containing an "exchange of information" clause. This exemption is not applicable to capital gains obtained by a non-Spanish Holder through a country or territory that is defined as a tax haven by Spanish regulations.

- Capital gains obtained directly by any non-Spanish Holder resident of another EU Member State or indirectly through a permanent establishment of such non-Spanish Holder in a EU Member State other than Spain, provided that:
  - the Issuer's assets do not mainly consist of, directly or indirectly, Spanish real estate;
  - during the preceding 12 months in case of individuals non-Spanish Holder has not held a direct or indirect interest of at least 25 per cent. in the Issuer's capital or net equity;
  - in the case of non-resident entities, the transfer fulfils all the requirements to benefit from the exemption on dividends and capital gains established for Spanish resident entities, passed by the CIT Law and described in paragraph (a)(i) of "*Spanish tax resident legal entities and non-Spanish tax resident investors acting through a permanent establishment in Spain to which the shares are attributable*"; and
  - the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations.
- Capital gains realised by non-Spanish Holders who benefit from a double taxation treaty that provides for taxation only in such non-Spanish Holder's country of residence.

Holders must submit a Spanish tax form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to settle the corresponding tax obligations or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish Holder is resident of such country within the meaning of the relevant double taxation treaty) or equivalent document meeting the requirements of the Order which further develops the applicable double taxation treaty, together with the Spanish tax form. The non-Spanish Holder's tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

(b) Spanish Wealth Tax

Spanish non-resident tax individuals are subject to the Spanish Wealth Tax on the assets located in Spain (such as shares in the Issuer) in tax year 2016 unless an applicable double taxation treaty provides otherwise.

Spanish Wealth Tax Law provides that the first EUR 700,000 of assets owned in Spain by Spanish non-resident tax individuals will be exempt from taxation, while the rest of the wealth will be taxed at a rate ranging between 0.2 per cent. and 2.5 per cent. although some

reductions may apply. In principle, Spanish Wealth Tax is expected to be effectively abolished as from January 2017.

As a consequence of the amendments passed by Law 26/2014, of 27 November, Non-Spanish tax resident individuals who are residents in the EU or in the EEA can apply the legislation of the region in which the highest value of the assets and rights of the individuals are located.

(c) Spanish Inheritance and Gift Tax

Unless otherwise provided under an applicable double taxation agreement in relation to Inheritance and Gift Tax, transfers of shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish Inheritance and Gift Tax if the shares are located in Spain (as is the case with shares in the Issuer) or the rights attached to such shares are exercisable in Spain, regardless of the residence of the heir or the beneficiary. The taxpayer is the transferee. The applicable tax rate, after applying all relevant factors, ranges between 7.65 per cent. and 81.6 per cent. for individuals, although the final tax rates may vary depending on any applicable regional tax laws.

According to the amendments passed by Law 26/2014, of 27 November, it will be possible to apply tax benefits approved in some Spanish regions to EU residents following specific rules.

Gifts granted to non-Spanish tax resident corporations will be generally subject to Spanish NRIT as capital gains, without prejudice to the exemptions referred to above under "— *Taxation of capital gains*".

Spanish Direct Refund from Spanish tax authorities

Beneficial owners entitled to receive income payments in respect of the Preferred Securities or in respect of the Ordinary Shares free of Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable double taxation treaty, but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim any excess amount withheld by the Bank from the Spanish Treasury following the 1 February of the calendar year following the year in which the relevant payment date takes place, and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership, and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

For further details, prospective Holders should consult their tax advisors.

EU Savings Directive

Under the Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the EU adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the OECD in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Principal Paying Agent (as defined in the Conditions of the Preferred Securities) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Principal Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Proposed Financial Transaction Tax (the FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Preferred Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Preferred Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by

transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Preferred Securities are advised to seek their own professional advice in relation to the FTT.

U.S. Foreign Account Tax Compliance Act Withholding

Pursuant to sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**), non-U.S. financial institutions that enter into agreements with the IRS (**IRS Agreements**) or become subject to provisions of local law intended to implement an intergovernmental agreement (**IGA legislation**) entered into pursuant to FATCA may be required to identify "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable laws in its jurisdiction, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding generally is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information or documentation (i) currently, in respect of certain U.S. source payments, (ii) starting 1 January, 2019, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) starting 1 January, 2019 (at the earliest) in respect of "foreign passthru payments". The United States and Spain have entered into an intergovernmental agreement in order to facilitate the implementation of FATCA (the **U.S.-Spain IGA**). Pursuant to the U.S.-Spain IGA, no withholding is generally required by financial institutions resident in Spain; however, the U.S.-Spain IGA leaves open the possibility that a financial institution resident in Spain may be required in the future to withhold on foreign passthru payments.

Whilst the Preferred Securities are in global form and held within Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme (together, the **ICSDs**), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Preferred Securities by the Issuer, any paying agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and with the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA. However, FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and the U.S.-Spain IGA, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Preferred Securities.

SUBSCRIPTION, SALE AND TRANSFER

The Joint Lead Managers have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 29 May 2016, jointly and severally agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities. In addition to the agreed commissions, the Bank will also reimburse each of the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify each of the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Bank.

United States

The Preferred Securities and the Ordinary Shares to be issued and delivered in the event of any Trigger Conversion may not be offered or sold within the United States or to, for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

The Preferred Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons. Each of the Joint Lead Managers has further agreed that it will send to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Preferred Securities, an offer or sale of such Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the **C Rules**), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each of the Joint Bookrunners will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each of the Joint Bookrunners will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if any of the Joint Bookrunners or such purchaser is within the United States or its possessions or otherwise involve any of the Joint Bookrunners' U.S. office in the offer or sale of Preferred Securities. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Spain

Each Joint Lead Manager severally (and not jointly) has represented and agreed that the Preferred Securities may not be offered or sold in Spain other than by institutions authorised under the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley de Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) as amended (the **Securities Market Law**) and related legislation, and Royal Decree 217/2008 of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el Régimen Jurídico de las empresas de servicios de inversión y de las demás entidades que prestan servicios de inversión*), to provide investment services in Spain, and in compliance with the provisions of the Securities Market Law and any other applicable legislation, **provided that** offers of the Preferred Securities shall not be directed specifically at or made to investors located in Spain.

United Kingdom

Each Joint Lead Manager severally (and not jointly) has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

General

Each Joint Lead Manager severally (and not jointly) has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Preferred Securities or has in its possession or distributes this Offering Circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense and will obtain any consent, approval or permission required by it for, the purchase, offer, sale or delivery by it of the Preferred Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any purchase, offer, sale or delivery in all cases at its own expense and neither the Issuer nor any other Joint Lead Manager shall have any responsibility therefor. Each Joint Lead Manager shall also ensure that no obligations are imposed on the Issuer or on any other Joint Lead Manager in any such jurisdiction as a result of any of the foregoing actions.

Subject to the above paragraph, neither the Bank nor any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would permit a public offering of the Preferred Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Preferred Securities, in any country or jurisdiction where action for that purpose is required. Further, neither the Bank nor any of the Joint Lead Managers has represented that the Preferred Securities may at any time be sold in compliance with any applicable registration or other

requirements in any jurisdiction or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such a sale.

No Joint Lead Manager is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Preferred Securities other than as contained in, or which is consistent with, this Offering Circular (in final form) or any amendment or supplement to it.

GENERAL INFORMATION

1. Listing

Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market (**GEM**) of the Irish Stock Exchange (**ISE**). It is expected that listing of the Preferred Securities will take place and that dealings in the Preferred Securities on the GEM will commence on or about 10 May 2016. The Issuer estimates that the expenses related to the admission of Preferred Securities to trading on the GEM are expected to be €10,540.

2. Authorisation

The creation and issue of the Preferred Securities have been authorised by resolutions of the Board of Directors dated 20 April 2016 acting by delegation of a resolution of the General Shareholders' Meeting dated 20 March 2014.

3. Legal and Arbitration Proceedings

There are no, nor have there been any, governmental, legal or arbitration proceedings (and no such proceedings are pending or threatened of which the Issuer is aware) which have or may have or have had during the 12 months prior to the date of this Offering Circular, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer or its subsidiaries taken as a whole.

4. Material/Significant Change

There has been no material adverse change in the prospects of the Issuer since 31 December 2015, the date of its last published audited financial statements. There has been no significant change in the financial or trading position of the Group since 31 March 2016.

5. Independent auditors

The consolidated financial statements of the Issuer for each of the years ended 31 December 2015 and 2014 have been audited by Deloitte, S.L. (registered in the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S0692), Plaza Pablo Ruiz Picasso 1, Torre Picasso, 28020, Madrid, Spain. The auditors have not resigned, been removed or re-appointed during the period covered by the historical financial information contained herein.

The Issuer has appointed PricewaterhouseCoopers Auditores, S.L. (registered in the Official Registry of Auditor of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S0242), Torre PwC, Paseo de la Castellana 259 B, 28046, Madrid, Spain, as auditor for each of the years ended 31 December 2016, 2017 and 2018.

6. Third party information

Information included in this Offering Circular sourced from the Bank of Spain has been accurately reproduced and, as far as the Issuer is aware and able to ascertain from the information published by the Bank of Spain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

7. Documents on Display

For so long as any of the Preferred Securities are outstanding, physical copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the office of the Principal Paying Agent at 25 Canada Square, Canary Wharf, London E14 5LB, United, and can be obtained, free of charge, from the Bank at Paseo de la Castellana 29, 28046, Madrid, Spain:

(i) the deed of incorporation of the Issuer;

(ii) the by-laws of the Issuer (also available on the Issuer's website);

(iii) the Agency Agreement (as defined in the Conditions);

(iv) this Offering Circular (also available on the Issuer's website);

(v) the audited consolidated financial statements of the Issuer as of and for the two years ended 31 December 2015 and 2014 (also available on the Issuer's and CNMV's website); and

(vi) the unaudited consolidated quarterly financial data of the Issuer as of and for the three-month period ended 31 March 2016 (also available on the Issuer's and CNMV's website).

8. Material Contracts

At the date of this Offering Circular, no contracts had been entered into that were not in the ordinary course of business of the Issuer and which could result in any Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to holders of the Preferred Securities.

9. Interests of Natural and Legal Persons Involved in the Offer of the Preferred Securities

Save as discussed in "*Subscription, Sale and Transfer*", so far as the Issuer is aware, no person involved in the offer of the Preferred Securities has an interest material to the offer.

10. Yield

On the basis of the issue price of the Preferred Securities of 100 per cent. of their principal amount, the annual yield of the Preferred Securities for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 8.908 per cent. This yield is calculated on the Closing Date and is not an indication of future yield.

11. Legend Concerning U.S. Persons

The Preferred Securities and any coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

12. Listing of the Ordinary Shares

The Ordinary Shares are listed on the Spanish Stock Exchanges of Madrid and Barcelona, which are regulated markets for the purposes of MiFID, and are quoted on the Automated Quotation System – Continuous Market (*Sistema de Interconexión Bursátil Español* –

Mercado Continuo (SIBE), under the symbol "BKT". The ISIN for the Ordinary Shares is ES0113679I37. Information about the past and future performance of the Ordinary Shares and their volatility can be obtained from the respective websites of each of the relevant Spanish Stock Exchanges.

13. Listing of the Preferred Securities: ISIN and Common Code

The Preferred Securities will be admitted to listing on the GEM of the ISE and have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Preferred Securities bear the ISIN XS1404935204 and the common code 140493520.

14. Other Relationships

Each Joint Lead Manager and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, each Joint Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the underwriters or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuers securities, including potentially the Preferred Securities. Any such short positions could adversely affect future trading prices of the Preferred Securities. Each Joint Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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