



BANKINTER, S.A.

(incorporated with limited liability under the laws of the Kingdom of Spain)

€500,000,000 Fixed Rate Reset Subordinated Notes due 2027

Issue Price: 99.601 per cent.

The €500,000,000 Fixed Rate Reset Subordinated Notes due 6 April 2027 (the “**Notes**”) are issued by Bankinter, S.A. (“**Bankinter**”, the “**Bank**” or the “**Issuer**”).

As described in the Terms and Conditions of the Notes (the “**Conditions**”) unless previously redeemed, the Notes will be redeemed at their principal amount on 6 April 2027. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, subject to the conditions set out in Condition 5(b) ((*Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption*) in “*Terms and Conditions of the Notes*”) including, without limitation, obtaining prior Supervisory Permission, in the event of certain changes affecting taxation in the Kingdom of Spain (see Condition 5(d) (*Redemption Due to Tax Event*) in “*Terms and Conditions of the Notes*”) or if a Capital Disqualification Event (as defined in the Conditions) occurs (see Condition 5(e) (*Redemption Due to Capital Disqualification Event*) in “*Terms and Conditions of the Notes*”).

In addition, the Issuer may at its option, subject to the conditions set out in Condition 5(b) (*Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption*) in “*Terms and Conditions of the Notes*”, including, without limitation, obtaining prior Supervisory Permission, redeem all, but not some only, of the Notes on the Reset Date, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption (see Condition 5(c) (*Issuer’s Call Option*) in “*Terms and Conditions of the Notes*”).

The Notes will bear interest on their outstanding principal amount (i) at a fixed rate of 2.50 per cent. per annum from (and including) the Issue Date (as defined in the Conditions) to (but excluding) the Reset Date (as defined in the Conditions) payable annually in arrear on 6 April in each year, with the first Interest Payment Date on 6 April 2018, and (ii) from (and including) the Reset Date (as defined in the Conditions), at the Reset Rate of Interest (as defined in the Conditions) plus 2.40 per cent. per annum (the “**Margin**”), as determined by the Agent Bank (as defined in the Conditions), payable annually in arrear on 6 April in each year, with the first Interest Payment Date after the Reset Date on 6 April 2023 (see Condition 4 (*Interest Payments*) in “*Terms and Conditions of the Notes*”). Payments on the Notes will be made in Euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under Condition 8 (Taxation) in “*Terms and Conditions of the Notes*”.

The payment obligations of the Issuer under the Notes constitute direct, unconditional and subordinated obligations (*créditos subordinados*) of the Issuer, as more fully described in Condition 3 (*Status of Notes*) in “*Terms and Conditions of the Notes*”. The Notes are expected to constitute Tier 2 Capital (as defined in the Conditions) of the Group.

The Notes will be issued in denominations of €100,000. The Notes will be issued in registered form and represented by a global certificate (the “**Global Certificate**”) which will be deposited with a common depository for, and registered in the name of a nominee of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. The Global Certificate will be exchangeable for definitive Notes in registered form in the denomination of €100,000 in the limited circumstances set out in it. See “*Summary of Provisions relating to the Notes while in Global Form*” for further detail.

The Notes have not been and will not be registered under the U. S. Securities Act of 1933 (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act, “**Regulation S**”).

This prospectus (the “**Prospectus**”) has been approved by the Central Bank of Ireland (the “**CBI**”), as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”) and constitutes a prospectus for the purposes of Article 5 of the Prospectus Directive. The CBI only approves this Prospectus as meeting the requirements imposed under Irish and European Union (the “**EU**”) law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the “**ISE**”) for the Notes to be admitted to the official list (the “**Official List**”) and to trading on its regulated market (the “**Main Securities Market**”). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC (“**MiFID**”). Such approval related only to the Notes which are to be admitted to trading on a regulated market for the purposes of MiFID and/or which are to be offered to the public in any Member State of the European Economic Area.

The Notes are expected to be rated Ba1 by Moody’s Investors Service Limited (“**Moody’s**”) and BB+ by Standard & Poor’s Financial Services LLC (“**S&P**”). As of the date of this Prospectus, Moody’s and S&P are established in the EEA and are registered under Regulation (EC) No 1060/2009 (as amended) (the “**CRA Regulation**”). As such Moody’s and S&P are included in the list of credit rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website in accordance with the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves certain risks that may affect the abilities of the Issuer to fulfil its obligations under the Notes. Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus, before deciding to invest in the Notes.

Joint Lead Managers

Banco Santander

Bankinter Securities SV, SA.

Barclays

BBVA

Crédit Agricole CIB

Natixis

The date of this Prospectus is 31 March 2017.

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus 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 Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

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

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus 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 Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bankinter Securities SV, SA., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank and Natixis (together, the “**Joint Lead Managers**”).

None of the Joint Lead Managers has separately verified the information contained or incorporated by reference in this Prospectus. None of the Joint Lead Managers nor any of their respective affiliates has authorised the whole or any part of this Prospectus 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 Prospectus. This Prospectus reflects the status as of the date of issue. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes 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 Prospectus or that any other information supplied in connection with the Notes 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 Prospectus or any other information supplied by the Issuer in connection with the Notes. Neither this Prospectus 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 Prospectus or such information or financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained or incorporated by reference in this Notes and its purchase of Notes 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 Prospectus nor to advise any investor or potential investor in the Notes 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 Notes. The Joint Lead Managers will not regard any other person (whether a recipient of this Prospectus 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 Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

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

In particular, the Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S).

In this Prospectus, 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 “*Terms and Conditions of the Notes*”) shall have the same meanings when used elsewhere in this Prospectus unless otherwise specified.

Potential investors are advised to exercise caution in relation to any offering of the Notes. If a potential investor is in any doubt about any of the contents of this Prospectus, 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 Prospectus or incorporated by reference herein. A potential investor should not invest in the Notes unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio. See further “*Risk Factors – Risks relating to the Notes – The Notes are complex instruments that may not be suitable for certain investors*”.

FINANCIAL INFORMATION

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

- 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 Prospectus 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.

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements that reflect the Issuer’s and/or the Issuer and its subsidiaries taken as a whole (the “**Group**”) intentions, beliefs or current expectations and projections about the Group’s future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, trends and the markets in which the Group operates or intends to operate. Forward-looking statements involve all matters that are not historical fact. These and other forward-looking statements can be identified by the words “may”, “will”, “would”, “should”, “expect”, “intend”, “estimate”, “anticipate”, “project”, “future”, “potential”, “believe”, “seek”, “plan”, “aim”, “objective”, “goal”, “strategy”, “target”, “continue” and similar expressions or their negatives. These forward-looking statements are based on numerous assumptions regarding the Group’s present and future business and the environment in which the Group expects to operate in the future. Forward-looking statements may be found in the management reports attached to the financial statements of the Group incorporated by reference herein.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause the Group's actual results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans or opportunities, as well as those of the markets the Group serves or intends to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements.

Additional factors that could cause the Group's actual results, financial condition, liquidity, performance, prospects, opportunities or achievements or industry results to differ include, but are not limited to, those discussed under "*Risk Factors*". In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur. Additional risks that the Group may currently deem immaterial or that are not presently known to the Group could also cause the forward-looking events discussed in this Prospectus not to occur. These forward-looking statements speak only as of the date on which they are made. Except as otherwise required by applicable securities law and regulations and by any applicable stock exchange regulations, the Issuer undertakes no obligation to update publicly or revise publicly any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Prospectus. Given the uncertainty inherent in forward-looking statements, prospective investors are cautioned not to place undue reliance on these statements.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

STABILISATION

In connection with the issue of the Notes, Banco Bilbao Vizcaya Argentaria, S.A. (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 Notes or effect transactions with a view to supporting the market price of the Notes 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 Notes 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 Notes and 60 days after the date of the allotment of the Notes. 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.

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RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations under the Notes. 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 Notes, but the non-payment by the Bank of any distributions or other amounts on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Prospectus and reach their own views prior to making any investment decision. If potential investors are in doubt about the contents of this Prospectus, then they should consult with an appropriate professional adviser to make their own legal, tax, accounting and financial evaluation of the merits and risk of investment in the Notes.

Words and expressions defined in “Terms and Conditions of the Notes” below or elsewhere in this Prospectus 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 (including, but not limited to, an insolvency proceeding of 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 Group’s borrowers and counterparties could affect the recoverability and value of the Group’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, of 26 June, on the regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) (“**Law 10/2014**”), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 (*Real Decreto 84/2015, de 13 de febrero, por el que se desarrolla la Ley 10/2014*) (“**Royal Decree 84/2015**”) and Bank of Spain Circular 2/2016 of 2 February (*Circular 2/2016, de 2 de febrero, del Banco de España*) (“**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.

Any of the foregoing could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

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 2016, 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 (“ECB”) has been applying a highly accommodative monetary policy: since March 2016 it has held the key interest rate at 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 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 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") and the global economy 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 1.7 per cent. in 2016 (Source: *Eurostat, News Release 20/2017, 31 January 2017, preliminary estimate*), 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.

Furthermore, other factors or events may affect the Spanish, European and global economic conditions, such as continuing uncertainty regarding the exit of countries from the EU (in particular, the United Kingdom), a sharp slowdown in China, a negative market reaction to (stronger than expected) interest rate increases by the United States Federal Reserve, heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside the Group's control. While the long term effects of the non-binding referendum of the United Kingdom on its membership in the EU are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the United Kingdom, continental Europe and the global economy, at least in the short to medium term.

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 EU, 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

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. However, from 2013 the economic recovery of the Spanish economy remains strong and the current account imbalances have been corrected: Spain has experienced GDP growths of 1.4 per cent. in 2014, 3.2 per cent. in 2015 and 3.2 per cent. in 2016 (Source: *National Statistics Institute of Spain, Press Notes, 15 September 2015, 14 September 2016 and 30 January 2017. The information of 2016 is a preliminary estimate*). Private consumption and investment have become the main growth drivers while exports perform strongly and easier financing conditions should support domestic demand; growth and the recovery of the euro area is also expected to continue to support export demand. The Spanish economy has made progress in reducing its economic and financial imbalances and implementing important structural reforms. However, although 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 2.3 per cent. in 2017, while the Bank of Spain expects a growing rate of the GDP of 2.5 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.

Any deterioration in the global economy, continuing business in Europe and, given the relevance of the Group's loan portfolio in Spain, the deterioration and 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. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crises. 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 EU 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. In addition, the new institutional structure in Europe for supervision, with the creation of the single supervisory mechanism ("SSM"), and for resolution, with the new single resolution mechanism ("SRM"), could lead to changes in the near future. 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*) ("CNMV") and the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*) ("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.

Additionally, a new solvency framework for insurance and reinsurance companies operating in the EU, referred to as "Solvency II" has entered into force, as of 1 January 2016.

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 ("**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, supervisión y solvencia de las entidades aseguradoras y reaseguradoras*) ("**Law 20/2015**") 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, supervisión y solvencia de las entidades aseguradoras y reaseguradoras*) ("**Royal Decree 1060/2015**").

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

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels. As a Spanish financial 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 ("**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 (“**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, on urgent measures to adapt Spanish law to European Union regulations on the subject of supervision and solvency of financial entities (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) (“**Royal Decree-Law 14/2013**”), Law 10/2014, Royal Decree 84/2015, Bank of Spain Circular 2/2014 of 31 January (*Circular 2/2014, de 31 de enero, del Banco de España*) (“**Bank of Spain Circular 2/2014**”) and Bank of Spain Circular 2/2016.

The new regulatory regime has, among other things, established minimum “Pillar 1” capital requirements, compelling financial institutions to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets, 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 for unexpected losses, requiring additional common equity tier 1 (“**CET1**”) of up to 2.5 per cent. of total risk exposure; (ii) the global systemically important institutions buffer (“**G-SIB buffer**”) of between 1 per cent. and 3.5 per cent. of total risk exposure; (iii) the institution-specific counter-cyclical capital buffer, requiring additional CET1 of up to 2.5 per cent. of total risk exposures; (iv) the other systemically important institutions buffer (“**D-SIB buffer**”), which may be as much as 2 per cent. of total risk exposure; and (v) the CET1 systemic risk buffer. The “combined buffer requirement” applies in addition to the minimum “Pillar 1” capital requirements and is required to be satisfied with 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 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 (“**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 to be a D-SIB in 2017 so, the Group will not be required to maintain a D-SIB buffer during this period.

The Bank of Spain agreed in December 2016 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the first quarter of 2017. 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.

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 (“**SSM Regulation**”), also contemplate that in addition to the minimum “Pillar 1” capital requirements (and, if applicable, any buffer capital as discussed above), supervisory authorities may impose further “Pillar 2” capital requirements to cover other risks, including those not considered to be fully captured by the minimum capital requirements under the CRD IV Directive or to address macro-prudential considerations. This may result in the imposition of additional capital requirements on the Group (and, if applicable, the Bank) pursuant to this “Pillar 2” framework. Any failure by the Group (and, if applicable, the Bank) to maintain its “Pillar 1” minimum regulatory capital ratios and any “Pillar 2” additional capital requirements could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group’s results of operations.

The ECB is required to carry out, at least on an annual basis, assessments under the CRD IV Directive of the additional “Pillar 2” capital requirements that may be imposed for each of the European banking institutions

subject to the SSM. Any additional capital requirement that may be imposed on the Group (and, if applicable, the Bank) by the ECB pursuant to these assessments may require the Group (and, if applicable, the Bank) to hold capital levels similar to, or higher than, those required under the full application of the CRD IV Directive. There can be no assurance that the Group will be able to continue to maintain such capital ratios.

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 (“**SREP**”) at least on an annual basis.

The European Banking Authority (“**EBA**”) published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP. Included in this were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional capital requirements implemented on 1 January 2016. Under these guidelines, national supervisors must set a composition requirement for the additional capital 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 capital requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements; and, accordingly, the above “combined buffer requirement” is in addition to the minimum capital requirement and to the additional capital requirement. In this regard, under Article 141 of the CRD IV Directive, Member States of the EU must require that an institution that fails to meet the “combined buffer requirement” or the “Pillar 2” capital requirements described above, will be prohibited from paying any “discretionary payments” (which are defined broadly by the CRD IV Directive as payments relating to CET1, variable remuneration and payments on Additional Tier 1 capital instruments), until it calculates its applicable restrictions and communicates them to the regulator and, once completed, such institution will be subject to restricted “discretionary payments”. The restrictions 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 since the last distribution of profits or “discretionary payment”. Such calculation will result in a maximum distributable amount (the “**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 distributions” will be permitted to be paid. Articles 43 to 49 of Law 10/2014 and Chapter II of Title II of Royal Decree 84/2015 implement the above provisions in Spain. In particular Article 48 of Law 10/2014 and Articles 73 and 74 of Royal Decree 84/2015 deal with restrictions on distributions.

As a result of the most recent SREP carried out by the ECB in 2016, the Bank was informed by the ECB that it is required to maintain a CET1 phased in capital ratio of 6.5 per cent. (on a consolidated basis). This CET1 capital ratio of 6.5 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 2.0 per cent.) (the capital conservation buffer will be 1.25 per cent. phased in 2017 and 2.5 per cent. fully loaded).

As of 31 December 2016, 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 above.

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 distribution, notably in so far as it relates to Additional Tier 1 instruments, in all circumstances when no profits are made in any given year. 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. In the meantime, the ECB stated on 5 January 2016 that it would follow the December 2015 EBA Opinion for the application of the Maximum Distributable Amount (although the ECB carried on to state that this approach might nonetheless be revisited, in relation to future regulatory developments or to the application of the EBA guidelines, in order to ensure consistency and harmonisation).

The ECB has also set out in its recommendation of 15 December 2016 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.

Any failure by the Group (and, if applicable, the Bank) 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, implementing Law 11/2015, of 18 June (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio*) (“**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 (“**BRRD**”) into Spanish law.

At its meeting of 12 January 2014, the oversight body of the Basel Committee on Banking Supervision (“**BCBS**”) endorsed the definition of the leverage ratio set forth in CRD IV Directive, to promote consistent disclosure, which applied from 1 January 2015. More precisely, Article 429 of the CRR requires institutions to calculate their LR in accordance with the methodology laid down in that article. In January 2014, the BCBS finalised a definition of how the LR should be prepared and set an indicative benchmark (namely 3 per cent. of Tier 1 capital). Such 3 per cent. Tier 1 LR has been tested during a monitoring period until 2017 when the BCBS will decide on the final calibration. Accordingly, the CRR does not currently contain a requirement for institutions to have a capital requirement based on the LR though prospective investors should note the European Commission’s proposal amending the CRR that are mentioned below. The European Commission’s proposals contain a binding 3 per cent. Tier 1 LR requirement, which would be added to the CRR and would be applicable (subject to limited exceptions) to all institutions subject to the CRD IV Directive from 1 January 2018. The potential for the introduction of a LR buffer for G-SIIs at some point in the future is also noted in the proposals.

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 Prospectus, 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.

Article 45 of BRRD provides that member states shall ensure that institutions meet, at all times, a minimum requirement for own funds and eligible 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 was scheduled to come into force by 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 48 months (four years) until 2020.

On 23 November 2016, the European Commission published a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No. 806/2014 which was passed on 15 July 2014 and became effective from 1 January 2015 (the “**SRM Regulation**”). Additionally, the European Commission proposed an amending directive to facilitate the creation of a new asset class of “non-preferred” senior debt (“**Proposals**”). The Proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of “non-preferred” senior debt, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. The Proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until the Proposals are in final form, it is uncertain how the Proposals will affect the Issuer or holders of the Notes.

Specifically, one of the main objectives of the Proposal to amend the BRRD and the SRM Regulation is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules (“**TLAC/MREL Requirements**”) thereby avoiding duplication from the application of two parallel requirements. As mentioned above, although TLAC and MREL pursue the same regulatory objective, there are, nevertheless, some differences between them in the way they are constructed. The European Commission is proposing to integrate the TLAC standard into the existing MREL rules and to ensure that both requirements are met with largely similar instruments, with the exception of the subordination requirement, which will be institution-specific and determined by the resolution authority.

The European Commission’s proposals require the introduction of limited adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for G-SIBs. In particular, technical amendments to the existing rules on MREL are needed to align them with the TLAC standard regarding inter alia the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer requirements, disclosure of risks to investors, and their application in relation to different resolution strategies. Implementation of the TLAC/MREL Requirements is expected to be phased-in from 1 January 2019 (a 16 per cent. minimum TLAC requirement) to 1 January 2022 (an 18 per cent. minimum TLAC requirement).

Any failure by an institution to meet the applicable minimum TLAC/MREL Requirements is intended to be treated in the same manner as a failure to meet minimum regulatory capital requirements, where resolution authorities must ensure that they intervene and place an institution into resolution sufficiently early if it is deemed to be failing or likely to fail and there is no reasonable prospect of recovery.

Additionally, the BCBS is currently in the process of reviewing and issuing recommendations in relation to risk asset weightings which may lead to increased regulatory scrutiny of risk asset weightings in the jurisdictions who are members of the BCBS.

In light of the above, it would be reasonable not to disregard that new and more demanding additional capital requirements may be applied in the future.

To sum up, there can be no assurance that the implementation of the above new capital requirements, standards and recommendations as well as any restrictive interpretation thereof or changes in the current law will not adversely affect the Bank's ability to make discretionary payments as set out above or require the Group 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.

In addition, as further described in the section headed "*Capital Adequacy*" of this Prospectus. The Bank has been waived from the application of prudential requirements on an individual basis under Article 7 of the CRR ("**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.

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 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 80 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.

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.

The 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 SRM.

The SSM (comprised by both the ECB and the national competent authorities) is designed 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 direct supervision of the 123 largest European banks (including the Bank), on 4 November 2014. In preparation for this step, between November 2013 and October 2014, the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures.

The SSM represents a significant change in the approach to bank supervision at a European and global level. The SSM results in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions and is now 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 national competent authorities that are part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the approval of the Regulation (EU) No. 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the “**SSM Framework Regulation**”). In addition, this new body represents an extra cost for the financial institutions that funds 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 for the taxpayers and the real economy. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund (“**SRF**”). Under the intergovernmental agreement (“**IGA**”) signed by 26 EU member states on 21 May 2014, contributions by banks raised at national level were transferred to the SRF. The new Single Resolution Board (“**SRB**”), which is the central decision-making body of the SRM, started operating on 1 January 2015 and has fully assumed its resolution powers on 1 January 2016. The SRB is responsible for managing the SRF and its mission is to ensure that credit institutions and other entities under its remit, which face serious difficulties, are resolved effectively with minimal costs to taxpayers and the real economy. From that date onwards the SRF is also in place, funded by contributions from European banks in accordance with the methodology approved by the Council of the EU. The SRF 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 and the SRM, 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 Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations; in particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes which were published in the Official Journal of the EU on 12 June 2014. The BRRD was required to be implemented on or before 1 January 2015, although the bail-in tool only applies since 1 January 2016. The BRRD was partially implemented in Spain in June 2015 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 aims 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, as these regulatory developments may require the Group to invest significant management attention and resources to make any necessary changes.

Other regulatory reforms adopted or proposed by the EU in the wake of the financial crisis

On 16 August 2012, Regulation (EU) No. 648/2012 on over-the-counter ("OTC") derivatives, central counterparties and trade repositories entered into force ("EMIR"). While a number of the compliance requirements introduced by EMIR already apply, the ESMA is still in the process of finalising some of the implementing rules mandated by EMIR. EMIR introduced a number of requirements, including clearing obligations for certain classes of OTC derivatives, exchange of initial and variation margin and various reporting and disclosure obligations. Although some of the particular effects brought about by EMIR are not yet fully foreseeable, many of its elements have led and may lead to changes which may negatively impact the Group's profit margins, require it to adjust its business practices or increase its costs (including compliance costs).

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No. 600/2014 ("MiFIR") and Directive 2014/65/EU ("MiFID II")), introduces a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. MiFID II was initially intended to enter into effect on 3 January 2017. In order to ensure legal certainty and avoid potential market disruption, the European Commission has proposed delaying the effective date of MiFID II by 12 months until 3 January 2018.

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 EU ("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.

In particular, the Group's results may be adversely affected by the proposed changes to the classification and measurement of financial assets arising from IFRS 9 financial instruments, which will require the development of an impairment methodology for calculating the expected credit losses on the Bank's financial assets and commitments to extend credit. These changes to IFRS 9 will become effective for the preparation of financial statements issued after 1 January 2018.

Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of negligence or fraud

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the Group in reports filed or submitted under the applicable legislation is accumulated and communicated to management, and recorded, processed, summarised and reported within the time periods specified in the relevant regulatory authority's rules and forms.

These disclosure controls and procedures have inherent limitations which include the possibility that judgments in decision-making can be faulty and that breakdowns occur because of errors or mistakes. Additionally, controls can be circumvented by any unauthorised override of the controls. Consequently, the Group's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

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 EU 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 EU's banking sector; (ii) the deregulation of the banking sector throughout the EU, 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 relating to the Notes

The Notes may be redeemed prior to maturity at the Issuer's option, for taxation reasons or upon the occurrence of a Capital Disqualification Event, subject to certain conditions

The Notes may be redeemed at the Issuer's option. The Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes, as further described in *Condition 5(c) (Issuer's Call Option)* in "*Terms and Conditions of the Notes*".

The Notes may also be redeemed for taxation reasons, if the Issuer, in making any payments on the Notes, has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in the Conditions) or the Issuer is no longer entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced, in each case, that the Issuer could not avoid by taking measures reasonably available to it and that result from any change in, or amendment to, the laws or regulations of Spain or any political subdivision or any authority thereof or therein having power to tax including any treaty to which Spain is a party, or any change in the application or official interpretation of such laws or regulations, including a decision of any court or tribunal, which change or amendment becomes effective on or after the Issue Date and in any event only if so permitted by the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority, as further described in *Condition 5(d) (Redemption Due to Tax Event)* in "*Terms and Conditions of the Notes*".

Additionally, if a Capital Disqualification Event occurs by reason of a change in the regulatory classification of the Notes which occurs after the Issue Date and which the Competent Authority considers sufficiently certain, the Issuer may redeem all, and not some only, of the Notes subject to such redemption being permitted by the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority, as further described in *Condition 5(e) (Redemption Due to Capital Disqualification Event)* in “*Terms and Conditions of the Notes*”.

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 Notes for taxation reasons, the application thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Issuer is able to elect to redeem the Notes, and if so whether or not the Issuer will elect to exercise such option to redeem the Notes. 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 Notes.

The redemption of the Notes that qualify as Tier 2 Capital of the Group at the option of the Issuer is subject to the Competent Authority permission and such permission will be given only if either of the following conditions is met:

- (a) on or before such redemption of the Notes, the Issuer replaces the Notes with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or
- (b) the Issuer has demonstrated to the satisfaction of the Competent Authority that its Tier 1 capital (capital de nivel 1 pursuant to Applicable Banking Regulations) and Tier 2 Capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Competent Authority may consider necessary on the basis set out in CRD IV.

To the extent that the Issuer redeems its Notes, an investor generally may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Additionally, the early redemption features may limit the market value of the Notes during any period in which the early redemption features are applicable to the Notes (or are perceived to be applicable).

The interest rate of the Notes will reset on the Reset Date, which can be expected to affect interest payments on the Notes and could affect the market value of the Notes

The Notes will initially bear interest at the Initial Fixed Interest Rate until (but excluding) the Reset Date. On the Reset Date, the interest rate will be reset to the sum of the Reset Reference Rate and the Margin as determined by the Agent Bank on the Reset Determination Date. The Reset Rate of Interest for the Reset Period could be less than the Initial Fixed Interest Rate and could affect the market value of an investment in the Notes.

An investor in the Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency or resolution

The Issuer's obligations under the Notes will be unsecured and subordinated and will rank junior to all unsubordinated obligations of the Issuer. Although the Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a greater risk that an investor in the Notes will lose all or some of its investment should the Issuer become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and RD 1012/2015) and the Notes become subject to the application of the Spanish Bail-in Power (including Non-Viability Loss Absorption) or (ii) insolvent.

In the case of any exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, the sequence of any resulting write-down or conversion of the Notes under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for the principal amount of Tier 2 instruments (such as the Notes) to be written-down

or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 Capital in accordance with the hierarchy of claims provided in Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de Julio, Concursal*) (the “**Insolvency Law**”) and for the latter to be written-down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any eligible liabilities, in accordance with the hierarchy of claims provided in the Insolvency Law. The Notes may be subject to Non-Viability Loss Absorption, which may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power. See “*Risks related to early intervention, restructuring and resolution – The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the holders of the Notes under, and the value of, any Notes*”.

In the event of insolvency, after payment in full of unsubordinated claims, but before distributions to shareholders, under article 92 of the Insolvency Law read in conjunction with Additional Provision 14.2° of Law 11/2015, the Issuer will meet subordinated claims in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debts (including the Notes); (iii) interest (including accrued and unpaid interest due on the Notes) and overcharge claims of any kind, including those for late payment, other than those under secured liabilities up to an amount equal to the value of the asset subject to the security; (iv) claims for fines and other monetary penalties; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in articles 61, 62, 68 and 69 of the Insolvency Law, whenever the court rules, prior to the administrators’ report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

Under the Insolvency Law, accrual of interest on the Notes shall be suspended from the date of the declaration of insolvency of the Issuer.

Additional Provision 14.2° of Law 11/2015 established a change in the ranking of claims under Article 92.2 of the Insolvency Law for Spanish banking insolvency proceedings. According to such change, contractually subordinated debt will be classified into three different categories with the following ranking: firstly, principal amount of subordinated debt not qualifying as Additional Tier 1 instruments or Tier 2 instruments, secondly principal amount of subordinated debt qualifying as Tier 2 instruments and, thirdly, principal amount of subordinated debt qualifying as Additional Tier 1 instruments.

The Notes may not be redeemed prior to maturity at the option of Holders, including in the event of non-payment of principal or interest

Holders of the Notes in general will not have any rights under the Conditions to request the early redemption of such Notes in the event of any failure by the Issuer to pay principal or interest in respect of such Notes.

Pursuant to the CRR, the Issuer is prohibited from including in the Conditions terms that would oblige it to redeem such Notes prior to their stated maturity at the option or request of holders of the Notes. As a result, the Conditions do not include provisions allowing for early redemption of the Notes at the option of Holders.

The Notes are complex instruments that may not be suitable for certain investors

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes 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:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;

- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets;
- (d) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where Euros (the currency for principal and interest payments) is different from the potential investor's currency; and
- (e) 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.

The terms of the Notes contain a waiver of set-off rights

The proposal for a regulation amending CRR published by the European Commission on 23 November 2016 provides that Qualifying Tier 2 Notes may not be subject to set off or netting rights that would undermine their loss absorbing capacity in resolution. The exercise of set-off rights in respect of the Issuer's obligations under the Notes upon the opening of a resolution procedure would be prohibited by Article 68 of BRRD (as transposed into Spanish law).

The Conditions provide that Holders waive any set-off, netting or compensation rights against any right, claim, or liability the Issuer has, may have or acquire against any Holder, directly or indirectly, howsoever arising. As a result, Holders will not at any time be entitled to set-off the Issuer's obligations under the Notes against obligations owed by them to the Issuer.

Risks relating to the Spanish withholding tax regime

The Issuer considers that, pursuant to the provisions of the 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), as amended, it is not obliged to withhold taxes in Spain on any interest paid on the Notes to any Holder, irrespective of whether such Holder is tax resident in Spain. The foregoing is subject to the Fiscal Agent complying with certain information procedures described in "*Taxation — Taxation in Spain — Reporting obligations*" below.

The Issuer and the Fiscal Agent (as defined in the Conditions) will, to the extent applicable, comply with the relevant procedures to facilitate the collection of information concerning the Notes. The procedures may be modified, amended or supplemented to, among other reasons, reflect a change in applicable Spanish law, regulation, ruling or interpretation thereof. Under Royal Decree 1065/2007, as amended, it is no longer necessary to provide the Issuer with information regarding the identity and the tax residence of an investor or the amount of interest paid to it in order for the Issuer to make payments free from Spanish withholding tax, provided that the securities: (i) are regarded as listed debt securities issued under Law 10/2014; and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state. The Issuer expects that the Notes will meet the requirements referred to in (i) and (ii) above and that, consequently, payments made by the Issuer to Holders should be paid free of Spanish withholding tax, provided the Fiscal Agent complies with the procedural requirements referred to above. In the event a payment in respect of the Notes is subject to Spanish withholding tax, save as provided in *Condition 8 (Taxation)* in "*Terms and Conditions of the Notes*", the Issuer will pay the relevant such additional amounts as may be necessary in order that the net amount received by such Holder after such withholding equals the sum of the respective amounts of principal and interest, if any, which would otherwise have been receivable in respect of the Notes in the absence of such withholding.

If the Spanish Tax Authorities (as defined in the Conditions) maintain a different opinion as to the application by the Issuer of withholding to payments made to the Holders, the Issuer will be bound by the opinion and, with

immediate effect, will make the appropriate withholding. If this is the case, identification of the Holders may be required and the procedures, if any, for the collection of relevant information will be applied by the Issuer (to the extent required) so that it can comply with its obligations under the applicable legislation as interpreted by the Spanish Tax Authorities. If procedures for the collection of the Holders information are to apply, the Holders will be informed of such new procedures and their implications.

Notwithstanding the above, in the case of Notes held by Spanish tax resident individuals and, under certain circumstances, by Spanish entities subject to Corporate Income Tax and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Notes may be subject to withholding by such depositary or custodian (currently, 19 per cent.) and the Issuer shall not be required to pay the relevant Holder additional amounts (as described above, please see *Condition 8 (Taxation)* in “*Terms and Conditions of the Notes*”).

In particular, with regard to Spanish entities subject to Corporate Income Tax, withholding could be made if it is concluded that the Notes do not comply with the relevant exemption requirements and those specified in the ruling issued by the Spanish Tax Authorities (Dirección General de Tributos) dated 27 July 2004 are deemed included among such requirements. According to said 2004 ruling, application of the exemption requires that, in addition to being traded on an organized market in an OECD country, the Notes are placed outside Spain in another OECD country. In the event that it was determined that the exemption from withholding tax on payments to Spanish Corporate Holders does not apply to any of the Notes on the basis that they were placed, totally or partially, in Spain, the Issuer would be required to make a withholding at the applicable rate, and no additional amounts will be payable by the Issuer in such circumstances as set out above.

Holders must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Notes. None of the Issuer, the Joint Lead Managers, the Fiscal Agent or any clearing system (including Euroclear and Clearstream Luxembourg) assume any responsibility therefor.

The procedure described in this Prospectus for the provision of information required by Spanish laws and regulations is a summary only and neither the Issuer nor the Joint Lead Managers assumes any responsibility therefor.

The Conditions contain provisions which may permit their modification without the consent of all investors

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

The Issuer is not prohibited from issuing further debt, which may rank pari passu with or senior to the Notes

The Conditions place no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes (including contractually subordinated obligations (*créditos subordinados*)), or on the amount of securities it may issue that rank pari passu with the Notes. The issue of any such debt or securities may reduce the amount recoverable by Holder upon liquidation of the Issuer.

The Conditions contain very limited covenants

There is no negative pledge in respect of the Notes. In addition, the Notes do not require the Issuer to comply with financial ratios or otherwise limit its ability or that of other entities of its Group to incur additional debt, nor do they limit the Issuer's ability to use cash to make investments or acquisitions, or the ability of the Issuer or its subsidiaries to pay dividends, repurchase shares or otherwise distribute cash to shareholders. Such actions could potentially affect the Issuer's ability to service its debt obligations, including those of the Notes.

The value of the Notes could be adversely affected by a change in law or administrative practice

The Conditions (except for *Condition 3 (Status of Notes)* in “*Terms and Conditions of the Notes*”) are governed by and shall be construed in accordance with English law in effect as at the date of this Prospectus. No

assurance can be given as to the impact of any possible judicial decision or change to Spanish and English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Euroclear and Clearstream, Luxembourg procedures

The Notes will be represented by Global Certificates and will be registered in the name of the Registered Holder as a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Notes provide for limited events of default. Holders may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under Law 11/2015

Holders have no ability to accelerate the maturity of their Notes. The Conditions do not provide for any events of default, except in the case that an order is made by any competent court commencing insolvency proceedings against the Issuer or for its winding up or dissolution. Accordingly, in the event that any payment on the Notes is not made when due, each Holder will have a claim only for amounts then due and payable on their Notes and, as provided for in the Conditions, a right to institute proceedings for the winding up or dissolution of the Issuer.

As mentioned above, pursuant to the BRRD as implemented through Law 11/2015 and Royal Decree 1012/2015, the Issuer may be subject to a procedure of early intervention or resolution. Pursuant to Law 11/2015 the adoption of any early intervention or resolution procedure shall not itself constitute an event of default or entitle any counterparty of the Issuer to exercise any rights it may otherwise have in respect thereof. Any provision providing for such rights shall further be deemed not to apply, although this does not limit the ability of a counterparty to declare any event of default and exercise its rights accordingly where an event of default arises either before or after the exercise of any such procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to Law 11/2015.

Any enforcement by a Holder of its rights under the Notes upon the occurrence of an event of default following the adoption of any early intervention or any resolution procedure will, therefore, be subject to the relevant provisions of the BRRD and Law 11/2015 and Royal Decree 1012/2015 in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see “*Risks related to early intervention, restructuring and resolution – The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the holders of the Notes under, and the value of, any Notes*”).

Any claims on the occurrence of an event of default will consequently be limited by the application of any measures pursuant to the provisions of Law 11/2015 and Royal Decree 1012/2015. There can be no assurance that the taking of any such action would not adversely affect the rights of Holders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and the

enforcement by a Holder of any rights it may otherwise have on the occurrence of any event of default may be limited in these circumstances.

The Notes may be subject to substitution and/or variation without Holder consent

Subject as provided herein, in particular to the provisions of *Condition 5 (Redemption, Substitution, Variation and Purchase)* in “*Terms and Conditions of the Notes*”, if a Capital Disqualification Event, an Alignment Event or a Tax Event occurs, the Issuer may, at its option, and without the consent or approval of the Holders, elect either (i) to substitute all (but not some only) of the Notes or (ii) to modify the terms of all (but not some only) of such Notes, in each case so that they are substituted for, or varied to, become, or remain, Qualifying Tier 2 Notes. While Qualifying Tier 2 Notes generally must contain terms that are materially no less favourable to Holders as the original terms of the Notes, there can be no assurance that the terms of any Qualifying Tier 2 Notes will be viewed by the market as equally favourable, or that the Qualifying Tier 2 Notes will trade at prices that are equal to the prices at which the Notes would have traded on the basis of their original terms.

Further, prior to the making of any such substitution or variation, the Issuer, shall not be obliged to have regard to the tax position of individual Holders or to the tax consequences of any such substitution or variation for individual Holders. No Holder shall be entitled to claim, whether from the Fiscal Agent, the Issuer, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual holders of Notes.

Impact of financial transaction taxes

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (the “**FTT**”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (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 in its current form, impose a tax at generally not less than 0.1 per cent., generally determined by reference to the amount of consideration paid, on certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt. The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Notes would be subject to higher costs, and the liquidity of the market for the Notes may be diminished.

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 Notes 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 11 October 2016, Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation, and Customs announced that the ten Participating Member States (excluding Estonia) agreed on certain important measures that will form the core engines of the FTT and indicated their intention to elaborate a draft legislation before the end of the year.

The FTT proposal remains subject to negotiation between the 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 and/or certain of the Participating Member States may decide to withdraw. Prospective holders of Notes are advised to seek their own professional advice in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of the Notes.

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 Issuer operates. Any such additional levies and taxes could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Risks related to early intervention, restructuring and resolution

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

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 an unsound or failing credit institution or investment firm (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 *Fondo de Reestructuración Ordenada Bancaria* (“**FROB**”), the SRM or, as the case may be and according to Law 11/2015, the Bank of Spain or the CNMV) or any other entity with the authority to exercise any such tools and powers from time to time (each, a “**Relevant Spanish Resolution Authority**”) 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 the Relevant Spanish Resolution Authority to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables the Relevant Spanish Resolution Authority to transfer all or part of the business of the firm to a “bridge institution” (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables the Relevant Spanish Resolution Authority 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 - which gives the Relevant Spanish Resolution Authority the right to exercise certain of the Spanish Bail-in Powers (as defined below). This includes the ability of the Relevant Spanish Resolution Authority to write down (including to zero) and/or 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 Powers) certain unsecured debt claims including the Notes.

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 Spanish Resolution Authority 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 as follows: (i) CET1 instruments; (ii) Additional Tier 1 instruments; (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 liabilities prescribed in Article 41 of Law 11/2015 (which is consistent with the one prescribed by the Insolvency Law read in conjunction with Additional Provision 14.2° of Law 11/2015).

In addition to the Spanish Bail-in Power which can be applied in respect of the Notes, the BRRD and Law 11/2015 also provide for the Relevant Spanish Resolution Authority to permanently write down or convert into equity capital instruments (such as the Notes) at the point of non-viability (“**Non-Viability Loss Absorption**”). The point of non-viability is the point at which the Relevant Spanish Resolution Authority determines that the institution or its group meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Notes) are written down or converted into equity or extraordinary public support is provided and without such support the Relevant Spanish Resolution 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 any other Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

In accordance with Article 64.1. (i) of Law 11/2015, the FROB has also the power to alter the amount of interest payable under debt instruments and other eligible liabilities of institutions subject to resolution proceedings and the date on which the interest becomes payable under the debt instrument (including the power to suspend payment for a temporary period).

The powers set out in the BRRD as implemented through Law 11/2015 and Royal Decree 1012/2015 will 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 may be subject to, among other things, on any application of the Spanish Bail-in-Power, a write-down (including to zero) or conversion into equity or other securities or obligations of amounts due under the Notes and additionally may be subject to any Non-Viability Loss Absorption. The exercise of any such powers may result in such Holders losing some or all of their investment or otherwise having their rights under such Notes adversely affected. For example, the Spanish Bail-in Power may be exercised in such a manner as to result in Holders receiving a different security, which may be worth significantly less than the Notes. Moreover, the exercise of the Spanish Bail-in Power with respect to the Notes or the taking by an 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, the market price or value or trading behaviour of any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes. There may be limited protections, if any, that will be available to holders of securities subject to the bail-in power (including the Notes) and to the broader resolution powers of the Relevant Spanish Resolution Authority. Accordingly, Holders may have limited or circumscribed rights to challenge any decision of the Relevant Spanish Resolution Authority to exercise its bail-in power.

Furthermore, the exercise of the Spanish Bail-in Power and any Non-Viability Loss Absorption by the Relevant Spanish Resolution Authority with respect to the Notes is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the Group’s control. In addition, as the Relevant Spanish Resolution Authority will retain an element of discretion, Holders 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 any 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 by the Relevant Spanish Resolution Authority may occur.

This uncertainty may adversely affect the value of the Notes. The price and trading behaviour of the Notes may be affected by the threat of a possible exercise of any power under Law 11/2015 (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Spanish Resolution Authority may exercise any such power without providing any advance notice to the Holders.

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 Spanish Resolution Authority may exercise the Spanish Bail-in Powers 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 under, and the value of a Holder's investment in, the Notes.

In addition to the BRRD, it is possible that the application of other relevant laws, such as the BCBS package of reforms to the regulatory capital framework for internationally active banks designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before taxpayers are exposed to loss and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in such a way as to result in the Notes absorbing losses in the manner described above. Any actions by the Relevant Spanish Resolution Authority pursuant to the ones granted by Law 11/2015, or other measures or proposals relating to the resolution of institutions, may adversely affect the rights of Holders, the price or value of an investment in the Notes and/or the Group's ability to satisfy its obligations under the Notes.

Risks Related to the Market Generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes 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 Notes 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 Notes by the Bank or any member of the Group as provided in *Condition 5 (Redemption, Substitution, Variation and Purchase)* in "*Terms and Conditions of the Notes*". Therefore, investors may not be able to sell their Notes 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 Notes.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Notes 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 ("**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 Notes, (ii) the Investor's Currency-equivalent value

of the redemption moneys payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

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 Notes involves the risk that changes in market interest rates may adversely affect the value of the Notes.

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

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes (including on an unsolicited basis). 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 Notes.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Notes does not address the likelihood that Payments (or any additional amounts payable in accordance with *Condition 6 (Payments)* in "*Terms and Conditions of the Notes*") or any other payments in respect of the Notes 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 Notes may affect the market value of the Notes. 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 Notes, 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 Notes and should make their investment decision on the basis of considerations such as those outlined above (see "*The Notes are complex instruments that may not be suitable for certain 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 ("**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 Prospectus.

In addition to ratings assigned by any hired rating agencies, rating agencies not hired by the Issuer to rate the Notes may assign unsolicited ratings. If any non-hired rating agency assigns an unsolicited rating to the Notes, 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 Notes.

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 Notes are lawful investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes 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 Prospectus provided however that any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus 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 Prospectus shall not form part of this Prospectus.

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 29, 28046, Madrid, Spain and from the Fiscal Agent at 25 Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and may be accessed on the Issuer's corporate website as indicated below:

1. The English language translation of the annual audited consolidated financial statements of the Issuer (including the auditors' report thereon and notes thereto and the 2015 management report) as of and for the year ended 31 December 2015 available for viewing on:

https://webcorporativa.bankinter.com/stf/traduccion/ingles/web_corporativa/accionistas_e_inversores/info_financiera/memoria/2015/informe_legal_del_grupo_bankinter_ingles.pdf

2. The English language translation of the annual audited consolidated financial statements of the Issuer (including the auditors' report thereon, the notes thereto and the 2016 management report) as of and for the year ended 31 December 2016 available for viewing on:

https://webcorporativa.bankinter.com/stf/traduccion/ingles/web_corporativa/accionistas_e_inversores/info_financiera/memoria/2016/informe_legal_grupo_bankinter_ing.pdf

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 ended 31 December 2016 and 31 December 2015. The audited consolidated financial statements of the Issuer for the year ended 31 December 2015 have been prepared in accordance with EU-IFRS, considering Circular 4/2004 of the Bank of Spain (as amended). The audited consolidated financial statements of the Issuer for the year ended 31 December 2016 have been prepared in accordance with EU-IFRS, considering Circular 4/2004 of the Bank of Spain (as amended by Circular 4/2016 of the Bank of Spain).

The English translation of the Issuer's audited consolidated financial statements as of and for the year ended 31 December 2016

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¹ Not all the pages of the 2016 the English translation of the Issuer's audited consolidated financial statements are paginated continuously. Page numbers set out above refer to the pagination of the digital PDF document.

The English translation of the Issuer's audited consolidated financial statements as of and for the year ended 31 December 2015

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Pursuant to Spanish regulatory requirements, management' reports are required to accompany the audited consolidated financial statements as of and for each of the years ended 31 December 2016 and 2015. Investors are cautioned that the reports contain information as of various historical dates and may not contain a current description of the business, affairs or results of the Group. The information contained in the management' reports has not been audited or prepared for the specific purpose of the issue of the Notes and/or this Prospectus. Accordingly, the management' reports should be read together with the other sections of this Prospectus, and particularly "*Risk Factors*" and "*Description of the Issuer and its Group*". Any information contained in the management' reports is deemed to be modified or superseded by any information contained elsewhere in this Prospectus that is subsequent to or inconsistent with it. Furthermore, the management' reports include certain forward-looking statements that are subject to inherent uncertainty. Accordingly, investors are cautioned not to rely upon the information contained in such management' reports.

OVERVIEW OF THE OFFERING

The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof.

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus 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 Prospectus. See, in particular, the Conditions in “*Terms and Conditions of the Notes*”.

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

Issuer:	Bankinter, S.A.
Joint Lead Managers:	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bankinter Securities SV, SA., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank and Natixis.
Risk Factors:	There are certain factors that may affect the Bank’s ability to fulfil its obligations under the Notes. These are set out under “ <i>Risk Factors</i> ” above and include risks relating to 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 Notes which are described in detail under “ <i>Risk Factors</i> ”.
Issue size:	€500,000,000
Issue Date:	6 April 2017
Issue details:	€500,000,000 Fixed Rate Reset Subordinated Notes due 6 April 2027
Issue price:	99.601 per cent. of the principal amount of the Notes
Use of Proceeds:	Bankinter intends to use the net proceeds from the issue of the Notes for the Group’s general corporate purposes.
Interest:	The Notes will bear interest on their outstanding principal amount (i) at a fixed rate of 2.50 per cent. per annum from (and including) the Issue Date to (but excluding) the Reset Date payable annually in arrear on 6 April in each year, with the first Interest Payment Date on 6 April 2018, and (ii) from (and including) the Reset Date, at the Reset Rate of Interest plus 2.40 per cent. per annum (the “ Margin ”), as determined by the Agent Bank, payable annually in arrear on 6 April in each year, with the first Interest Payment Date after the Reset Date on 6 April 2023 (See <i>Condition 4 (Interest Payments)</i> in “ <i>Terms and Conditions of the Notes</i> ”). Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under <i>Condition 8 (Taxation)</i> in “ <i>Terms and Conditions of the Notes</i> ”.

Status of the Notes:	The payment obligations of the Issuer under the Notes shall constitute direct, unconditional and subordinated obligations (<i>créditos subordinados</i>) of the Issuer, as more fully described in <i>Condition 3 (Status of Notes)</i> in “ <i>Terms and Conditions of the Notes</i> ”. The Notes are expected to constitute Tier 2 Capital of the Issuer.
Form:	The Notes will be issued in registered form and will be represented by a Global Certificate, which will be deposited with, and registered in the name of the Registered Holder as a nominee for, and deposited with a common depositary for Euroclear and Clearstream, Luxembourg.
Final Redemption:	6 April 2027
Tax and Regulatory Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, subject to the conditions set out in <i>Condition 5(b) (Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption)</i> in “ <i>Terms and Conditions of the Notes</i> ” including, without limitation, obtaining prior Supervisory Permission, in the event of certain changes affecting taxation in the Kingdom of Spain (a Tax Event see <i>Condition 5(d) (Redemption Due to Tax Event)</i> in “ <i>Terms and Conditions of the Notes</i> ”) or if a Capital Disqualification Event occurs (see <i>Condition 5(e) (Redemption Due to Capital Disqualification Event)</i> in “ <i>Terms and Conditions of the Notes</i> ”).
Optional Redemption:	The Issuer may at its option, subject to the conditions set out in <i>Condition 5(b) (Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption)</i> in “ <i>Terms and Conditions of the Notes</i> ”, including, without limitation, obtaining prior Supervisory Permission, redeem all, but not some only, of the Notes on the Reset Date, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption (see <i>Condition 5(c) (Issuer’s Call Option)</i> in “ <i>Terms and Conditions of the Notes</i> ”).
Substitution, Variation	The Issuer may, subject to <i>Condition 5(b) (Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption)</i> in “ <i>Terms and Conditions of the Notes</i> ”, in the case a Tax Event, Capital Disqualification Event or an Alignment Event has occurred and is continuing, and obtaining prior Supervisory Permission, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Notes (see <i>Condition 5(f) (Substitution or Variation)</i> in “ <i>Terms and Conditions of the Notes</i> ”).

Purchases:	<p>The Issuer may, subject to <i>Condition 5(b) (Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption)</i> in “<i>Terms and Conditions of the Notes</i>” and in particular prior Supervisory Permission, purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. In addition, the Issuer may, subject to <i>Condition 5(g)(i)(ii) (Purchases)</i> in “<i>Terms and Conditions of the Notes</i>” and in particular prior Supervisory Permission, purchase the Notes for market making purposes.</p> <p>See <i>Condition 5(g) (Purchases)</i> in “<i>Terms and Conditions of the Notes</i>”.</p>
Rating:	<p>The Notes are expected to be rated Ba1 Moody’s and BB+ by S&P. 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.</p>
Listing:	<p>Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market of the Irish Stock Exchange.</p>
Governing Law:	<p>English law, save for <i>Condition 3 (Status of Notes)</i> in “<i>Terms and Conditions of the Notes</i>”, which is governed by the laws of the Kingdom of Spain.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the Securities Act apply. The Notes will not be eligible for sale in the United States under Rule 144A of the Securities Act.</p>

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the €500,000,000 Fixed Rate Reset Subordinated Notes due 6 April 2027 (the “**Notes**”) of Bankinter, S.A. (the “**Issuer**”) was authorised by resolutions passed by (a) the general meeting of shareholders of the Issuer on 15 March 2012 and (b) the Board of Directors (*Consejo de Administración*) on 25 January 2017.

A fiscal agency agreement dated 6 April 2017 (the “**Fiscal Agency Agreement**”) has been entered into in relation to the Notes between, among others, the Issuer, Citibank, N.A., London Branch as fiscal agent and transfer agent, Citigroup Global Markets Deutschland AG as registrar, the Agent Bank (defined below) and any successor agents appointed from time to time in connection with the Notes. The Notes have the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 6 April 2017 executed by the Issuer relating to the Notes. Citibank, N.A., London Branch will act as agent bank for the purpose of calculating the rate of interest payable on the Notes (in such capacity, the “**Agent Bank**”). The fiscal agent, any transfer agent and the registrar for the time being are referred to below respectively as the “**Fiscal Agent**”, the “**Transfer Agents**” and the “**Registrar**”. “**Agents**” means the Fiscal Agent, the Agent Bank, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Notes, and any reference to an “**Agent**” is to any one of them. The Fiscal Agency Agreement includes the form of the Notes. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of the Fiscal Agent, the Registrar and any Transfer Agents. The Holders (as defined in Condition 1(b)) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

The Issuer will execute a public deed (*escritura pública*) (the “**Public Deed**”) before a Spanish Notary Public in relation to the Notes on or prior to the Issue Date. The Public Deed will contain, among other information, the terms and conditions of the Notes.

1 Form, Denomination and Title

(a) Form and Denomination

The Notes are serially numbered in the denomination of €100,000.

The Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same Holder.

(b) Title

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

In these Conditions, “**Holder**” means the person in whose name a Note is registered.

2 Transfers of Notes

(a) Transfer

A holding of Notes may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such

Certificate(s), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries in the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent. A copy of the current regulations will be made available by the Registrar to any Holder upon request.

(b) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within three business days of receipt of a duly completed and executed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate(s) shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) *Transfer Free of Charge*

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require).

(d) *Closed Periods*

No Holder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of interest or redemption of that Note, or (ii) during the period of 15 days prior to (and including) any earlier date fixed for redemption of that Note pursuant to Condition 5(c), 5(d) or 5(e).

3 Status of Notes

The payment obligations of the Issuer under the Notes, whether on account of principal, interest or otherwise, shall constitute direct, unconditional and subordinated obligations (“*créditos subordinados*”) of the Issuer in accordance with Article 92.2° of the Insolvency Law and, in accordance with Additional Provision 14.2° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer, the obligations of the Issuer on account of principal of the Notes, for so long as they constitute a Tier 2 Instrument of the Issuer, will rank (unless they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law):

- (i) **senior** to (i) any claims for principal in respect of contractually subordinated obligations (“*créditos subordinados*”) of the Issuer in accordance with Article 92.2° of the Insolvency Law constituting Additional Tier 1 Instruments; (ii) any subordinated obligations (“*créditos subordinados*”) of the

Issuer under Articles 92.3° to 92.7° of the Insolvency Law, and (iii) any other subordinated obligations (“*créditos subordinados*”) which by law and/or by their terms, and to the extent permitted by Spanish law, rank junior to the Issuer’s obligations under the Notes;

- (ii) ***pari passu*** among themselves and with (i) any other claims for principal in respect of contractually subordinated obligations (“*créditos subordinados*”) of the Issuer in accordance with Article 92.2° of the Insolvency Law constituting Tier 2 Instruments of the Issuer and which are not subordinated obligations (“*créditos subordinados*”) under Articles 92.3° to 92.7° of the Insolvency Law, and (ii) any other subordinated obligations (“*créditos subordinados*”) which by law and/or by their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Issuer’s obligations under the Notes; and
- (iii) **junior** to (i) any unsubordinated obligations (“*créditos ordinarios*”) of the Issuer; (ii) any subordinated obligations (“*créditos subordinados*”) of the Issuer under Article 92.1° of the Insolvency Law; (iii) any claim for principal in respect of other contractually subordinated obligations (“*créditos subordinados*”) of the Issuer in accordance with Article 92.2° of the Insolvency Law not constituting Additional Tier 1 Instruments or Tier 2 Instruments and which are not subordinated obligations (“*créditos subordinados*”) under Articles 92.3° to 92.7° of the Insolvency Law; and (iv) any other subordinated obligations (“*créditos subordinados*”) which by law and/or by their terms, and to the extent permitted by Spanish law, rank senior to the Issuer’s obligations under Notes.

Hence, the Notes are and will be neither secured nor subject to a guarantee or arrangement that otherwise enhances the seniority of the claims. The obligations of the Issuer under the Notes will be subject to the Spanish Bail-In Power.

4 Interest Payments

(a) Interest Rate

The Notes bear interest on their outstanding principal amount at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 4.

Interest shall be payable on the Notes annually in arrear on each Interest Payment Date as provided in this Condition 4.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) Interest Accrual

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 5(a), (c), (d) or (e) or the date of substitution thereof pursuant to Condition 5(f), as the case may be, unless, upon surrender of the Certificate representing any Note, payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 4(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(c) Initial Fixed Interest Rate

During the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 2.50 per cent. per annum (the “**Initial Fixed Interest Rate**”).

(d) Reset Rate of Interest

The Interest Rate will be reset (the “**Reset Rate of Interest**”) in accordance with this Condition 4 on the Reset Date. The Reset Rate of Interest will be determined by the Agent Bank on the Reset Determination Date as the sum of the Reset Reference Rate and the Margin. From (and including) the Reset Date the Notes bear interest at the Reset Rate of Interest.

(e) Determination of Reset Rate of Interest

The Agent Bank will, as soon as practicable after 11:00 a.m. (Central European time) on the Reset Determination Date, determine the Reset Rate of Interest in respect of the Reset Period.

(f) Publication of Reset Rate of Interest

The Agent Bank shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 4 in respect of the Reset Period to be given to the Issuer, the Fiscal Agent, the Registrar, each of the Transfer Agents, any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 12, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(g) Agent Bank and Reset Reference Banks

The Issuer will maintain an Agent Bank until the Reset Rate of Interest has been determined.

The Issuer may from time to time replace the Agent Bank with another leading investment, merchant or commercial bank or financial institution in the eurozone or, if the Issuer is not itself the Agent Bank, it may replace any third party Agent Bank and perform the obligations of the Agent Bank itself. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Reset Rate of Interest in respect of the Reset Period as provided in Condition 4(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in the eurozone to act as such, or shall itself act as such, in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(h) Determinations of Agent Bank Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank, shall (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Registrar, the Transfer Agents and all Holders and (in the absence of wilful default or negligence) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5 Redemption, Substitution, Variation and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled or pursuant to Condition 5(f), substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on 6 April 2027. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

(b) *Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption*

The Issuer may, subject to compliance with the Applicable Banking Regulations then in force and subject to the prior Supervisory Permission, when applicable, redeem or purchase the Notes or substitute or vary the terms of the Notes in each case in accordance with Conditions 5(c), (d), (e), (f) or (g)(i)(i).

Prior to the publication of any notice of substitution, variation or redemption pursuant to Conditions 5(d) or (f), the Issuer shall (i) deliver to the Fiscal Agent to make available at its specified office to the Holders a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and, in the case of a substitution or variation, that the terms of the relevant Qualifying Tier 2 Notes comply with the definition thereof in Condition 19 and (ii) in the case of a redemption pursuant to Condition 5(d) only, use its best efforts to deliver to the Fiscal Agent to make available to the Holders at its specified office (A) an opinion from independent legal advisers of recognised standing to the effect that the relevant requirement or circumstance referred to in any of paragraphs (a)(i) and (ii) of the definition of “*Tax Event*” applies (but, for the avoidance of doubt, such opinion shall not be required to comment on the ability of the Issuer to avoid such circumstance by taking measures reasonably available to it) and (B) evidence of the prior Supervisory Permission that has been obtained by the Issuer, if required under prevailing Applicable Banking Regulations.

(c) *Issuer’s Call Option*

Subject to Condition 5(b), the Issuer may, by giving not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 12, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(d) *Redemption Due to Tax Event*

If, prior to the giving of the notice referred to below in this Condition 5(d), a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 12, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (i) would be obliged to pay Additional Amounts, or (ii) would no longer be entitled to claim a deduction or the amount of such deduction would be materially reduced, in each case, were a payment in respect of the Notes then due. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(e) *Redemption Due to Capital Disqualification Event*

If, prior to the giving of the notice referred to below in this Condition 5(e), a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 12, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(f) Substitution or Variation

If a Tax Event, a Capital Disqualification Event or an Alignment Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 12, the Registrar and the Fiscal Agent but without any requirement for the consent or approval of the Holders, at any time (whether before, on or following the Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become Qualifying Tier 2 Notes. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 5(f), as the case may be.

Any notice provided in accordance with this Condition 5(f) shall be irrevocable, specify the relevant details of the manner in which such substitution or, as the case may be, variation shall take effect (including the date for substitution or variation) and where the Holders can inspect or obtain copies of the new terms and conditions of the Notes. Such substitution or, as the case may be, variation will be effected without any cost or charge to the Holders.

In connection with any substitution or variation in accordance with this Condition 5(f), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) Purchases

- (i) The Issuer may, subject to Condition 5(b), purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders.
- (ii) Notwithstanding Condition 5(b), the Issuer or any agent on its behalf shall have the right at all times to purchase the Notes for market making purposes provided that the Issuer has obtained prior Supervisory Permission therefor if required under prevailing Applicable Banking Regulations, and has otherwise complied with any conditions therefore set out in the Applicable Banking Regulations.

(h) Cancellation

All Notes redeemed or substituted by the Issuer pursuant to this Condition 5 will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Supervisory Permission therefore if required under prevailing Applicable Banking Regulations, be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Registrar. Notes so surrendered, shall be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

6 Payments

(a) Method of Payment

- (i) Payments of principal shall be made in euro (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in like manner as is provided for payments of interest in paragraph (ii) below.
- (ii) Interest on each Note shall be paid to the person shown in the Register at the close of business on the business day before the due date for payment thereof (the “**Record Date**”). Payments of

interest on each Note shall be made in euro by cheque drawn on a bank and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in euro maintained by the payee with a bank in a city in which banks have access to the TARGET System.

(b) *Payments Subject to Laws*

Save as provided in Condition 8, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) *Payment Initiation*

Where payment is to be made by transfer to an account in euro, payment instructions (for value the due date, or if that date is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Fiscal Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Transfer Agent is open for business and on which the relevant Certificate is surrendered.

(d) *Delay in Payment*

Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day, or if the Holder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 6(a)(i)(ii) arrives after the due date for payment.

(e) *Non-Business Days*

If any date for payment in respect of any Note is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 6, “**business day**” means a day (other than a Saturday, Sunday or a public holiday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and which is a TARGET Business Day.

7 Default

If an order is made by any competent court commencing insolvency proceedings against the Issuer or if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in the case of a reconstruction, merger or amalgamation (i) which has been approved by an Extraordinary Resolution at a meeting of Holders of the Notes; or (ii) where the entity resulting from any such reconstruction, merger or amalgamation is (A) a financial institution (*entidad de crédito*) under article 1 of Law 10/2014, as amended and restated and (B) has a rating for long-term subordinated debt assigned by a Rating Agency equivalent to or higher than the rating for long-term subordinated debt of the Issuer immediately prior to such reconstruction, merger or amalgamation) and such order is continuing, then any Note may, unless there has been an Extraordinary Resolution to the contrary at a meeting of Holders, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, be declared immediately due and payable, whereupon the principal amount of such Notes together with any accrued and unpaid interest thereon to the date of payment shall become immediately due and payable without further action or formality.

If a default occurs under this Condition 7, claims of Holders in respect of the Notes shall rank as set out under Condition 3.

8 Taxation

- 8.1 All payments of principal, interest and any other amounts payable in respect of the Notes by the Issuer 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 imposed, levied, collected, withheld or assessed by or within Spain (the “**Spanish Tax Authorities**”) 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 principal, interest and any other amounts, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result in Holders receiving such amounts as they would have received in respect of such payments of principal, interest and any other amounts had no such withholding or deduction been required.
- 8.2 The Issuer shall not be required to pay any Additional Amounts as referred to in Condition 8.1 above in relation to any payment in respect of Notes:
- (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 Notes by reason of his having some connection with Spain other than (i) the mere holding of Notes or (ii) the receipt of any payment in respect of Notes; or
 - (i) 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 Date; or
 - (ii) 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 Note, of a custodian, collection agent, person or entity acting on its behalf or similar person in relation to such Note; or
 - (iii) presented for payment by or on behalf of a Holder who does not provide to the Issuer or an agent acting on behalf of the Issuer 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
 - (iv) presented for payment by or on behalf of a Holder who would be able to avoid the withholding or deduction referred to in Condition 8.1 above by presenting the Notes to a Fiscal Agent in another Member State of the European Union; or
 - (v) to, or to a third party on behalf of, individuals resident for tax purposes in Spain; or
 - (vi) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish Corporate Income Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

For the avoidance of doubt, any amounts to be paid by the Issuer on the Notes 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 8, 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 Fiscal 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 10 below.

9 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them and thereafter any principal interest or other sums payable in respect of such Notes shall be forfeited and revert to the Issuer.

10 Meetings of Holders, Modification and Substitution

(a) Meetings of Holders

The Fiscal Agency Agreement contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Condition 3, the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes or the Interest Rate or varying the method of calculating the Interest Rate) the quorum will be one or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding.

Any Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) Modification of the Conditions

No modification to these Conditions shall become effective unless (if and to the extent required at the relevant time by the Competent Authority) the Issuer shall have given at least 30 days’ prior written notice thereof to, and received Supervisory Permission therefor from if required, the Competent

Authority (or such other period of notice as the Competent Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission).

(c) *Modification of the Fiscal Agency Agreement*

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Holders.

(d) *Notification to the Holders*

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

11 Replacement of the Notes

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and, regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to the Holders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Notices

Notices to the Holders shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if it is a requirement of applicable law or regulations, notices to Holders will be published on the date of such mailing in a leading newspaper having general circulation in Ireland or published on the website of the Irish Stock Exchange or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

13 Further Issues

The Issuer may from time to time without the consent of the Holders, but subject to any Supervisory Permission (if required), create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

14 Agents

The initial Fiscal Agent, the Registrar and the Transfer Agents and their initial specified offices are listed below. Including any Agent Bank that may be appointed, they act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer reserves the right, at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar, the Agent Bank and the Transfer Agents and to appoint replacement agents or other Transfer Agents, provided that it will:

- (a) at all times maintain a Fiscal Agent, a Registrar and a Transfer Agent; and
- (b) whenever a function expressed in these Conditions to be performed by the Agent Bank fails to be performed, appoint and maintain an Agent Bank until the Reset Rate of Interest has been determined.

Notice of any such termination or appointment and of any change in the specified offices of the Agents will be given to the Holders in accordance with Condition 12. If any of the Agent Bank, Registrar or the Fiscal Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Fiscal Agency Agreement (as the case may be), the Issuer shall appoint an independent financial institution to act as such in its place. All calculations and determinations made by the Agent Bank, the Registrar or the Fiscal Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Agent Bank, the Registrar, the Fiscal Agent and the Holders.

15 Governing Law and Jurisdiction

(a) Governing Law

Save as described below, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. *Condition 3* shall be governed by, and shall be construed in accordance with, Spanish law.

(b) Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings 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 jurisdiction (whether concurrently or not).

(c) Service of Process

The Issuer irrevocably appoints Cheeswrights, which at the date hereof is at Bankside House, 107 Leadenhall Street, London EC3A 4AF, United Kingdom, as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify the Holders of such appointment in accordance with Condition 12. Nothing shall affect the right to serve process in any manner permitted by law.

16 Contingent Acknowledgement of the Spanish Bail-in Power

Notwithstanding any other term of the Notes or any other agreements, arrangements, or understanding between the Issuer and any Holder, by its acquisition of the Notes, each Holder (which, for the purposes of this clause, includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents to and agrees to be bound by:

- (i) the effect of the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, which exercise may include and result in any of the following, or some combination thereof: (i) the reduction of all, or a portion, of the Amounts Due on the Notes (ii) the conversion of all, or a portion, of the Amounts Due on the Notes into ordinary shares, other securities or other obligations of the Issuer, the Group or another person (and the issue to or conferral on the Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes; (iii) the cancellation of the Notes or the Amounts Due; and (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes,

or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

- (ii) the variation of the terms of the Notes, as deemed necessary by the Relevant Spanish Resolution Authority, to give effect to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority.

This Condition 16 will only apply if (i) English law is no longer deemed to constitute the law of an EU member state under the provisions of the BRRD as implemented in the Kingdom of Spain (including but not limited to, Law 11/2015 and its development regulations) as amended from time to time and (ii) if so required by future Applicable Banking Regulations.

17 Waiver of Set-off

No Holder may at any time exercise or claim any Waived Set-Off Rights against any right, claim, or liability the Issuer has or may have or acquire against such Holder, directly or indirectly, howsoever arising (and, for the avoidance of doubt, including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any sort, whether or not relating to such Note) and each Holder shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, nothing in this Condition is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Note but for this Condition.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

19 Definitions

In these Conditions:

“**Additional Amounts**” has the meaning given to it in Condition 8;

“**Additional Tier 1 Instrument**” means any contractually subordinated obligation (“*créditos subordinados*”) of the Issuer in accordance with Article 92.2° of the Insolvency Law constituting an additional tier 1 instrument (“*instrumento de capital de nivel 1 adicional*”) under Additional Provision 14.2° of Law 11/2015;

“**Agent Bank**” has the meaning given to it in the preamble to these Conditions;

“**Alignment Event**” means the amendment of the Applicable Banking Regulations resulting in an instrument of the Issuer with New Terms being treated as Tier 2 Capital;

“**Amounts Due**” means the principal amount, together with any accrued but unpaid interest, and Additional Amounts, if any, due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority;

“Applicable Banking Regulations” means, at any time, the laws, regulations, requirements, guidelines and policies of the Competent Authority, of the Kingdom of Spain or of the European Parliament and Council then in effect in the Kingdom of Spain relating to capital adequacy, resolution and/or solvency and applicable to the Issuer and/or the Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies of the Competent Authority relating to capital adequacy, resolution and/or solvency then in effect (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 Issuer and/or the Group);

“Authorised Signatories” means any two of the Directors or Company Secretary of the Issuer;

“BRRD” means Directive 2014/59/EU of 15th May establishing the framework for the recovery and resolution of credit institutions and investment firms or such other directive as may come into effect in place thereof, as implemented into Spanish law by Law 11/2015 and Royal Decree 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

“Business Day” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Madrid and in London and, if on that day a payment is to be made, a day which is a TARGET Business Day also; and in the case of surrender of a Certificate, 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 place in which the Certificate is surrendered;

“Calculation Amount” means €100,000 in principal amount;

“Capital Disqualification Event” means the determination by the Issuer after consultation with the Competent Authority that the principal amount of the Notes is not eligible for inclusion in whole or, to the extent not prohibited by the Applicable Banking Regulations, in part in the Tier 2 Capital of the Group pursuant to Applicable Banking Regulations (other than as a result of any applicable limitation on the amount of such capital as applicable to the Issuer);

“Certificate” has the meaning given to it in Condition 1(a);

“Competent Authority” means the European Central Bank or the Bank of Spain, as applicable, or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer and/or the Group;

“Conditions” means these terms and conditions of the Notes, as amended from time to time;

“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, as amended and replaced from time to time;

“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 Competent Authority, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a standalone basis) or the Group (on a consolidated basis) and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital of the Issuer (on a standalone or consolidated basis);

“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, as amended or replaced from time to time;

“**Directors**” means the directors of the Issuer;

“**€**” or “**euro**” means the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

“**Fiscal Agency Agreement**” has the meaning given to it in the preamble to these Conditions;

“**Fiscal Agent**” means Citibank, N.A., London Branch (or any successor Fiscal Agent, as described in the preamble to these Conditions, appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 12);

“**Group**” means the Issuer together with its consolidated Subsidiaries;

“**Holder**” has the meaning given to it in Condition 1;

“**Initial Fixed Interest Rate**” has the meaning given to it in Condition 4(c);

“**Initial Fixed Rate Interest Period**” means the period from (and including) the Issue Date to (but excluding) the Reset Date;

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

“**Interest Payment Date**” means (i) in respect of the period from the Issue Date to (and including) the Reset Date, 6 April in each year, starting on (and including) 6 April 2018 and (ii) after the Reset Date, 6 April in each year, starting on (and including) 6 April 2023;

“**Interest Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Rate**” means the Initial Fixed Interest Rate and/or the Reset Rate of Interest, as the case may be;

“**Issue Date**” means 6 April 2017, being the date of the initial issue of the Notes;

“**Issuer**” means Bankinter, S.A.;

“**Law 10/2014**” means Law 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), 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;

“**Margin**” means 2.40 per cent.;

“**New Terms**” means, at any time, any terms and conditions of a capital instrument issued by the Issuer that are different in any material respect from the terms and conditions of the Notes at such time;

“**Notes**” has the meaning given to it in the preamble to these Conditions;

“**Qualifying Tier 2 Notes**” means, at any time, securities denominated in euros and issued directly by the Issuer or issued indirectly by the Issuer and guaranteed by the Issuer (on a subordinated basis equivalent to the subordination set out in Condition 3) that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes, as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of two Authorised Signatories shall have been delivered to

the Fiscal Agent (and copies thereof will be available at the Fiscal Agent's specified office during its normal business hours) five business days prior to the issue or, as appropriate, variation of the relevant securities,

- (b) contain terms which comply with the then current requirements of the Competent Authority in relation to Tier 2 Capital;
- (c) provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes;
- (d) rank senior to, or pari passu with, the ranking of the Notes;
- (e) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption;
- (f) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; and
- (g) if (i) the Notes were listed or admitted to trading on a regulated market immediately prior to the relevant substitution or variation, are listed or admitted to trading on a regulated market or (ii) if the Notes were listed or admitted to trading on a recognized stock exchange other than a regulated market immediately prior to the relevant substitution or variation, are listed or admitted on a recognized stock exchange (including, without limitation, a regulated market), in either case as selected by the Issuer;

For these purposes, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in London;

“**Rating Agency**” means any of Standard & Poor's Rating Services, Moody's Investor Services, Fitch Ratings Ltd or DBRS Ratings Limited or their respective successors;

“**Record Date**” has the meaning given to it in Condition 6(a);

“**Register**” has the meaning given to it in Condition 1(b);

“**Registrar**” has the meaning given to it in the preamble to these Conditions;

“**regulated entity**” means any entity to which BRRD, as implemented in the Kingdom of Spain (including but not limited to, Law 11/2015 and its development regulations) and as amended from time to time, applies, which includes, certain credit institutions, investment firms, and certain of their parent or holding companies;

“**Relevant Date**” means in respect of any payment, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Holders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender;

“**Relevant Jurisdiction**” means the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

“Relevant Spanish Resolution Authority” means the Spanish Fund for the Orderly Restructuring of Banks (the **“FROB”**), the European Single Resolution Mechanism, as the case may be, according to Law 11/2015, and any other entity with the authority to exercise the Spanish Bail-in Power from time to time;

“Reset Date” means 6 April 2022;

“Reset Determination Date” means, in respect of the Reset Period, the day falling two TARGET Business Days prior to the first day of such Reset Period;

“Reset Period” means the period from and including the Reset Date to but excluding 6 April 2027;

“Reset Rate of Interest” has the meaning given to it in Condition 4(d);

“Reset Reference Banks” means five leading swap dealers in the principal interbank market relating to euro selected by the Agent Bank in its discretion after consultation with the Issuer;

“Reset Reference Rate” means in respect of the Reset Period, (i) the applicable annualised mid-swap rate for swap transactions in euro (with a maturity equal to 5 years) as displayed on the Screen Page at 11.00 a.m. (Central European Time) on the Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the Reset Reference Bank Rate on the Reset Determination Date;

Where:

“Mid-Swap 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 interest rate swap transaction in euro which (i) has a term commencing on the Reset Date which is equal to 5 years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

“Reset Reference Bank Rate” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Agent Bank at or around 11:00 a.m. (Central European Time) on the Reset Determination Date and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, 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, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be 0.186 per cent. per annum; and

“Screen Page” means Reuters screen page “ISDAFIX2”, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

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

“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 the Kingdom of Spain, relating to (i) the transposition of the BRRD (including but not limited to, Law 11/2015 and its development regulations) as amended from time to time, (ii) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or superseded from time to time (the SRM

Regulation) and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of a regulated entity (as defined below) (or other affiliate of such regulated entity) can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period);

“**Spanish Tax Authorities**” has the meaning given to it in Condition 8;

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

“**Supervisory Permission**” means, in relation to any action, such supervisory permission (or, as appropriate, waiver) as is required therefor under prevailing Applicable Banking Regulations (if any);

“**TARGET Business Day**” means a day on which the TARGET System is operating;

“**TARGET System**” means the Trans European Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto);

“**Tax Event**” is deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; or
- (ii) the Issuer is no longer entitled to claim a deduction in any Relevant Jurisdiction in respect of any payments of interest in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced,

and, in each case, the Issuer could not avoid the foregoing by taking measures reasonably available to it;

“**Tax Law Change**” means a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application or official interpretation of such laws or regulations, including a decision of any court or tribunal, which change or amendment becomes effective on or after the Issue Date;

“**Tier 2 Capital**” means tier 2 capital (*capital de nivel 2*) pursuant to Applicable Banking Regulations;

“**Tier 2 Instrument**” means any contractually subordinated obligation of the Issuer (“*créditos subordinados*”) in accordance with Article 92.2° of the Insolvency Law which constitutes a tier 2 instrument (*instrumento de capital de nivel 2*) under Additional Provision 14.2°(b) of Law 11/2015;

“**Transfer Agents**” has the meaning given to it in the preamble to these Conditions; and

“**Waived Set-Off Rights**” means any and all rights of or claims of any Holder for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Note.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the “**Registered Holder**”) for a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (“**Alternative Clearing System**”) as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3 Exchange

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or
- (iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

4 Amendment to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which

shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Notices

So long as the Global Certificate is held by or on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, notices required to be given to Holders may be given by their being delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Conditions, in which case such notices shall be deemed to have been given to Holders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

4.3 Prescription

Claims in respect of the principal, interest and other amounts payable in respect of the Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the appropriate Relevant Date.

4.4 Meetings

For the purposes of any meeting of Holders, the holder of the Notes represented by the Global Certificate shall be treated as one person for the purposes of any quorum requirements of a meeting of Holders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

4.5 Purchase and Cancellation

Cancellation of any Note represented by the Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the nominal amount of the Global Certificate on its presentation to or to the order of the Fiscal Agent for notation in Schedule A of the Global Certificate.

5 Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then:

- (i) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the “*Fiscal Agency Agreement*”) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Holders duly convened and held, and shall be binding on all Holders whether or not they participated in such Electronic Consent; and
- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the “*Fiscal Agency Agreement*”) has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent

or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Holders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

Bankinter intends to use the net proceeds from the issue of the Notes 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	
	2016	2015
	<i>(in (€000s) except percentages)</i>	
Common equity tier 1 ratio (“ CET1 ”) (%) ⁽¹⁾	11.77	11.77
Tier 1 ratio (%) ⁽²⁾	11.92	11.77
Total capital ratio (%) ⁽³⁾	12.59	12.73
Total risk-weighted assets (“ RWA ”) ⁽⁴⁾	30,763,509	27,238,576

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

	31 December	
	2016	2015
	<i>(in (€000s) except percentages)</i>	
CET1 fully loaded (%) ⁽⁵⁾	11.15	11.61
Tier 1 ratio fully loaded (%) ⁽⁵⁾	11.80	11.61
Total capital ratio fully loaded (%) ⁽⁵⁾	12.69	12.87
Leverage ratio (%) ⁽⁶⁾	5.37	5.52

Notes:

- (1) The common equity Tier 1 ratio was calculated in accordance with CRD IV requirements in 2014, 2015 and 2016, applying a 60 per cent. phase in for 2016.
- (2) The Tier 1 ratio is phased in accordance with CRD IV requirements in 2014, 2015 and 2016.
- (3) The total capital ratio was calculated in accordance with CRD IV requirements in 2014, 2015 and 2016.
- (4) The total risk weighted assets are phased in according to CRD IV requirements in 2014, 2015 and 2016.
- (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 2015 and 2016. In 2016 they include the valuation adjustments of sovereign debt for the first time. Total capital ratio fully loaded includes Tier 1 ratio fully loaded capital of 11.80 per cent. and Tier 2 fully loaded of 0.89 per cent. in 2016 and Tier 1 ratio fully loaded capital of 11.61 per cent. and Tier 2 fully loaded of 1.25 per cent. in 2015.
- (6) Leverage ratio calculated in accordance with Article 429 of CRR and the Delegated Regulation (EU) 2015/62 of 10 October 2014.

Changes in CET1, Tier 1 and solvency ratios in 2016 were in large part due to the business evolution, the retention of part of the net income and the acquisition of the business of Bankinter Portugal (as defined below).

Tier 2 capital was reduced as certain subordinated debt issues were no longer treated as capital because they were nearing their maturity.

There was an increase in the Group’s risk-weighted assets as a result of the Group’s increased level of business and the acquisition of the business of Bankinter Portugal (as defined below).

SREP requirements

As a result of the most recent SREP carried out by the ECB in 2016, the Bank was informed by the ECB that it is required to maintain a CET1 phased in capital ratio of 6.5 per cent. and a total phased in capital ratio of 10 per cent. on a consolidated basis (i.e. at Group level). This CET1 capital ratio of 6.5 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 2.00 per cent.). As at 31 December 2016, the phased in CET 1 ratio of the Group was 11.8 per cent. and the phased in total capital ratio of the Group stood at 12.6 per cent.

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 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.

As of the date of this Prospectus, 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 issued share capital of the Issuer as of the date of this Prospectus 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 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 Issuer and its subsidiaries taken as a whole (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 2016 were as follows:

Name	Business	Registered office	% holding		
			% 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
Bankinter Gestão	Asset	Avenida Do Colegio	100	-	100

			% holding		
Name	Business	Registered office	% direct holding of Bankinter	% indirect holding of Bankinter	% total holding
de Ativos, S.A.	management	Militar, Lisboa, Portugal			
Hispamarket, S.A.	Holding and acquisition of securities	Paseo de la Castellana 29, 28046 Madrid	99.99	0.01	100
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 Riesgo	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	CM Cerro de los Gamos 1, Pozuelo de Alarcón, 28224 Madrid	-	100	100

			% holding		
Name	Business	Registered office	% direct holding of Bankinter	% indirect holding of Bankinter	% total holding
	inspections and travel assistance				
LDA Activos, 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
Centro Avanzado de Reparaciones CAR, S.L.U.	Vehicle repair	Avda. Sol 5, Torrejón de Ardoz, 28850 Madrid	-	100	100
LDA Reparaciones, S.L.	Specialised home repairs and improvements	Ronda de Europa 7, 28760 Tres Cantos, 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 €620 million as of 31 December 2016 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) as at 31 December 2016 were as follows:

Name	Business	Registered office	% holding		
			% 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
Olimpo Real Estate Socimi, S.A.	Real estate investment	Calle Goya 3, Madrid	7.5	2.54	10.04
Bankinter Seguros de Vida, S.A. de Seguros y Reaseguros	Insurance company	Avda de Bruselas 12, Alcobendas, 28018 Madrid	50	-	50
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 of the Group) are also carried out in Luxembourg. As of 1 April 2016, through the acquisition of the business of Barclays Retail & Wealth Portugal and Barclays Insurance Portugal ("**Bankinter Portugal**") (see "*Recent events*" below) the Group also carries out activities in Portugal, which represents 5.25 per cent. of the total income of the Group for the year ended 2016.

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; (v) Other Business; and (vi) Bankinter Portugal. 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 segment 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 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, Bankinter Seguros Generales, S.A. de Seguros y Reaseguros and Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros).

Commercial Banking also comprises the following business lines and activities:

- (i) *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.

- (ii) *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, investment 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.
- (iii) *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.
- (iv) *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 on certain client segments, in particular Private Banking and Personal Banking.

Customer assets in the Private Banking business line increased by 11.4 per cent. in 2016 compared with the same period in 2015, reaching €31.20 billion as at 31 December 2016. 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 449 companies managed as at 31 December 2016, 2.6 per cent. less than in 2015 (source: *Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones (Inverco)*).

The improvement in the economic environment, together with low interest rates, meant that in 2016 customers demanded new investment proposals. In 2014, Bankinter started a process to transform Personal Banking; this improvement and transformation effort paid off in 2016, with an increase of 7.9 per cent. in the number of active customers in the business line of Personal Banking when compared with the same period in 2015.

The market for private customers experienced an increase in the contracting of new mortgages by 25.7 per cent. in 2016 when compared with the same period in 2015, which has meant the registration of €2.33 billion worth of mortgages throughout the year. Additionally, €370 million worth in registrations of personal loans were taken, an increase of 20 per cent. when compared to the previous year, and the balance of the salary accounts portfolio increased by 33.1 per cent. when compared with the same period in 2015.

The market of individual foreign customers, centred most notably around mortgage financing, was consolidated in 2016. The number of new customers went up to 3,412, with an increase of 3.7 per cent. in active customers when compared with the same period in 2015. Total resources also evolved in a similar way, with a rise of 1.87 per cent. The amount from the contracting of new mortgages rose € 85 million, which meant an increase of 28 per cent. when compared to the previous year.

The NPL ratio fell to 4.01 per cent. (from 4.13 per cent. in 2015) despite the NPLs of its newly acquired business in Portugal, which were relatively higher than those of the Group. On a like-for-like basis, Bankinter's NPL ratio stands at 3.56 per cent. for 2016, less than half the average of the banking sector in Spain.

Since 2003, the maximum Loan to Value 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 2016 (22 per cent.).

During 2016, the average assets in the Group's Commercial Banking segment had increased by 2.13 per cent. compared to 2015 to €25.35 billion and average liabilities had increased by 14.65 per cent. compared to 2015 to €22.54 billion. The gross operating income generated by the Group's Commercial Banking segment increased during 2016 by 13.71 per cent. when compared with the same period in 2015.

The net interest income of the Group's Commercial Banking segment increased during 2016 by 25.71 per cent. when compared with the same period in 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 increased to €79 million during 2016.

Corporate and SME Banking

The Corporate and SME Banking segment provides a specialised service aimed at both large and small-medium 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:

- (i) *SMEs*: with annual sales of up to €5 million, 447 SME centres inside general branches and around 65,617 customers;
- (ii) *Companies*: with annual sales from €5 million to €50 million, 72 business centres and around 20,670 customers; and
- (iii) *Corporate*: with annual sales starting from €50 million, 22 corporate centres and around 5,510 customers.

The Corporate and SME Banking lending portfolio grew by 6.7 per cent. in 2016, with average assets of €21.25 billion during 2016, compared with €19.9 billion in 2015.

Similarly, average liabilities grew during 2016, amounting to €15.37 billion, an increase of 19.82 per cent. compared with the previous year.

The net interest income of the Group's Corporate and SME Banking segment increased during 2016 by 2.7 per cent. when compared with the same period in 2015. Fees decreased by 0.61 per cent. and the gross operating income increased by 0.9 per cent. when compared to the previous year. Overall, gross profit from Corporate and SME Banking operations increased by more than 13.04 per cent. in 2016 when compared to the previous year.

Bankinter Consumer Finance ("BKCF")

The Group's consumer finance activities are carried out through its subsidiary Bankinter Consumer Finance, E.F.C., S.A., and consist of the issue of credit cards and granting consumer loans.

During 2016, the average assets in BKCF had increased to €512.3 million, a 6.15 per cent. increase when compared with the same period in 2015. The gross operating income generated by BKCF increased during 2016 by 40.70 per cent. when compared with the same period in 2015.

The net interest income of BKCF increased by 52.49 per cent. during 2016 when compared to 2015 while profit before tax increased to €53.7 million during 2016.

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.

The net profit from LDA's operations in 2016 was €105.6 million, 6.2 per cent. higher than in 2015. This was the largest profit in the history of LDA.

During 2016, the average assets and average liabilities of the Group's insurance business segment amounted to €1.26 billion and €946 million respectively (these figures were €1.27 billion and €939 million, respectively, as at 31 December 2015).

During 2016, gross operating income generated by the insurance business segment increased by 2.3 per cent. when compared with the same period in 2015, while net interest income decreased by 8.0 per cent. and net profit before tax decreased by 1.7 per cent.

Bankinter Portugal

On 1 April 2016, the Issuer acquired the business of Barclays Retail & Wealth Portugal and, on the same date, Bankinter Seguros de Vida (a company jointly owned by Bankinter and Mapfre, S.A.) completed the acquisition of Barclays Insurance Portugal (please see "*Recent events*" below for further detail). As of 31 December 2016 Bankinter Portugal has contributed to the profit and loss account of the Group for 2016 with a positive net tax result of €98 million, of which €145.1 million before tax correspond to the negative goodwill recognised in profit or loss account.

Other Business

The Other Business segment of the Group comprises the following activities:

- (i) *Capital Markets*: which includes the net interest income/expense and the profit/loss from financial operations generated by the institutional portfolio and trading activity.
- (ii) *COINC*: the online savings platform created by the Issuer.
- (iii) *Bank's Institutional Management*: the activity of the treasury desk with institutional clients.

Financial Overview

Income and Expenses

For the year ended 31 December 2016, the Group had a total consolidated profit of €490.1 million (compared with €375.9 million in 2015). The consolidated profit before taxes includes a negative goodwill of €145.1 million for the year 2016. This was the Group's best consolidated profit figure in its 50-year history. Pre-tax profit for 2016 came to €676.7 million, a 30.05 per cent. increase as compared to 2015.

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. It should be noted that these results include the business of Bankinter in Portugal, following the business acquisitions completed on 1 April 2016 (see "*Recent events*" below). On a comparable basis, the consolidated profit of the Group would have been €426.5 million; and the pre-tax profit €588.8 million.

The following table sets out the income statements of the Group for the financial years ended 31 December 2016 and 2015:

	31 December 2016	31 December 2015¹
	(€000s)	(€000s)
	(Audited)	(Unaudited)
Interest and similar income	1,271,458	1,283,765
Interest expense and similar charges	(292,441)	(414,311)
Net interest income	979,017	869,454
Dividend income	10,253	6,681
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates	22,093	18,223
Fees and commissions income	470,849	437,604
Fees and commissions expenses	(91,740)	(80,275)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit	55,770	57,883
Gains or (-) losses on financial assets and liabilities held for trading, net	15,085	12,360
Gains or (-) losses on financial assets and liabilities designated at fair value through profit	1,357	(3,183)
Gains or (-) losses from hedge accounting, net	(387)	(909)
Exchange differences (net)	(376)	5,500
Other operating income	746,454	695,783
Other operating expenses	(490,986)	(450,306)
Gross income	1,717,389	1,568,815
Administrative cost	(843,353)	(699,401)
Depreciation and amortisation	(58,893)	(61,653)
Provisions (net)	(38,611)	(25,254)
Impairment losses on financial assets (net)	(168,875)	(189,301)
Profit from operations	607,657	593,206
Impairment losses on other assets (net)	(17,489)	(442)
Gains or (-) losses on derecognition of non-financial assets, investments in subsidiaries, joint ventures and associates, net	(703)	(2,001)
Negative goodwill recognised in profit or loss	145,140	-

¹ Income statement of the Group for the financial year ended 31 December 2015 set out in the table above has been prepared in accordance with the recent Circular 5/2014 of the Bank of Spain to make it comparable to the audited consolidated financial information for the year ended 31 December 2016 (which has also been prepared in accordance with such Circular 5/2014 of the Bank of Spain). As a result, although the income statement figures for 2015 have been derived from the 2015 audited consolidated financial statements of the Issuer, they do not correspond to the figures presented in the audited consolidated income statement of the Issuer for the year ended 31 December 2015 due to the change in presentation explained above.

	31 December 2016	31 December 2015¹
	<i>(€000s)</i>	<i>(€000s)</i>
	<i>(Audited)</i>	<i>(Unaudited)</i>
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not classified as discontinued operations	(57,893)	(70,433)
Profit before taxes	676,712	520,330
Income tax	(186,603)	(144,410)
Profit for the year from continuing operations	490,109	375,920
Consolidated profit for the year	490,109	375,920

The Group's net interest income for the year ended 31 December 2016 amounted to €979 million, representing an increase of 12.6 per cent. compared with 2015. This increase was due primarily to the continued fall in interest rates during 2016, 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 2016, with fees and commission income growing by 6.1 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 0.28 per cent.

The increase in administrative costs is mainly due to the investments that the Group has had due to 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 efficiency ratio of the Group was 52.54 per cent. in 2016 compared with 48.51 per cent. in 2015, mainly due to the cost of integrating Bankinter Portugal and other expenses relating to IT and digitalisation projects.

Lastly, in 2016, 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 30.05 per cent. increase in pre-tax profits.

Assets and Liabilities

As of 31 December 2016, the Group had total assets of €67.18 billion (€58.66 billion in 2015), and liabilities of €63.08 billion (€54.86 billion in 2015).

The following table sets forth the balance sheets of the Group as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015 ¹
	(€000s)	(€000s)
	(Audited)	(Unaudited)
Cash and cash balances at central banks	3,556,750	1,448,882
Financial assets held for trading	2,676,719	4,473,638
Other financial assets at fair value through profit and loss	-	57,209
Available-for-sale financial assets	4,140,057	3,530,153
Loans and receivables	52,816,104	44,955,793
Held to maturity investments	2,019,546	2,404,757
Derivatives / hedge accounting	215,965	160,073
Investments in subsidiaries, joint ventures and associates	112,708	39,424
Assets under insurance and reinsurance contracts	3,124	2,889
Tangible assets	503,716	493,114
Intangible assets	245,063	266,693
Tax assets	384,861]	348,238
Other assets	204,833	160,660
Non-current assets held for sale	303,021	318,287
Total assets	67,182,467	58,659,810
Financial liabilities held for trading	2,195,816	3,769,080
Financial liabilities at amortised cost	59,338,635	49,836,994
Derivatives / hedge accounting	109,154	11,489
Liabilities under insurance contracts	683,659	630,983
Provisions	153,707	95,868
Tax liabilities	346,391	314,940
Other liabilities	257,729	202,279
Total liabilities	63,085,091	54,861,633
Equity	3,987,518	3,689,436
Accumulated other comprehensive income	109,858	108,741
Total liabilities and equity	67,182,467	58,659,810

¹ The balance sheet of the Group for the financial year ended 31 December 2015 set out in the table above has been prepared in accordance with the recent Circular 5/2014 of the Bank of Spain to make it comparable to the audited consolidated financial information for the year ended 31 December 2016 (which has also been prepared in accordance with such Circular 5/2014 of the Bank of Spain). As a result, although the income statement figures for 2015 have been derived from the 2015 audited consolidated financial statements of the Issuer, they do not correspond to the figures presented in the audited consolidated income statement of the Issuer for the year ended 31 December 2015 due to the change in presentation explained above.

Credit Quality

The table below shows the Group's NPLs ratios and coverage as at 31 December 2016 and 2015:

	31 December 2016 (€)	31 December 2015 (€)
	(Unaudited)	(Unaudited)
Total risk exposure	57,308,266	49,415,783
Total non-performing loans	2,296,743	2,039,239
Credit risk provisions	1,131,359	856,302
NPL ratio (%)	4.01	4.13
Non-performing loans coverage ratio (%)	49.23	41.99

Doubtful debts as at 31 December 2016 remained at €2,296,743, which represents a 12.63 per cent. increase compared to 2015, mainly due to the newly acquired business in Portugal.

Bankinter's NPL ratio fell to 4.01 per cent. (from 4.13 per cent. in 2015) despite the NPLs of its newly acquired business in Portugal, which were relatively higher than those of the Group. On a like-for-like basis, Bankinter's NPL ratio is 3.56 per cent (less than half the average for the banking sector in Spain).

Capital Expenditures

The Group's principal investments are financial investments in its subsidiaries and affiliates. The main capital expenditures in 2016 and 2015 were as follows:

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.

The completion of both acquisitions took place in April 2016 (see "*Recent events*" below).

During the fourth quarter of 2016 the Group acquired 10.04 per cent. of the shares in Olimpo Real Estate Socimi, S.A. and Linea Directa Aseguradora, S.A. set up a new company, LDA Reparaciones, S.L..

Capital Divestitures

The Group's principal divestitures are financial divestitures in its subsidiaries and affiliates. The main capital divestitures in 2016 and 2015 were as follows:

2016

During the fourth quarter of 2016, the Bank sold it 49.95 per cent. shareholding of Eurobits Technologies, S.L.

2015

During 2015, the Group decreased its participation in Eurobits Technologies, S.L. from 71.98 per cent. of the shareholding 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 Prospectus, 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	2021	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 Dolores Dancausa Treviño	21 October 2010	2019	Executive	Chief Executive Officer / Member of the Executive Committee	Director (Esure) and Director (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros); Chairman (Bankinter Global Services, S.A.); Chairman (Bankinter Consumer Finance, EFC, S.A.)
Director Mr Marcelino Botín-Sanz de	21 April 2005	2021	External Proprietary	Member of the Appointments and Corporate	

	First appointment	Mandate expiration	Type	Title	Principal activities outside the Issuer
Sautuola y Naveda ⁽³⁾				Governance Committee	
Director Mr Fernando Masaveu Herrero ⁽⁴⁾	14 September 2005	2021	External Proprietary	Member of the Executive 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	Director (Bankinter Global Services, S.A.) and Chairman (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros)
Director Mr Rafael Mateu de Ros Cerezo	21 January 2009	2021	External Independent	Chairman of the Appointments and Corporate Governance Committee and Member of the Executive	Director (Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros)

	First appointment	Mandate expiration	Type	Title	Principal activities outside the Issuer
				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).

There are no actual potential conflicts of interest between the duties to the Issuer of any of the members of the Board of Directors referred to above and their respective private interests and/or duties.

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 up 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 Prospectus, 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 Prospectus, 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 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 Prospectus, the Risk Committee is composed of the following four members:

Name	Position
Mr Jaime Terceiro Lomba	Chairman (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

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 Prospectus, 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 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 Prospectus, 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)
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	Retail 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.), Director (Bankinter Global Services, S.A.), Director (Bankinter Luxembourg)
Mrs Gloria Calvo Díaz	General Secretary and Secretary to the Board	Director (Bankinter Gestión de Activos, S.G.I.I.C.),

Name	Position	Principal activities outside the Issuer
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.), Chairman (Bankinter Securities, S.V., S.A.), Director (Arroyo Business Consulting, S.A. SGIIC)
Mrs Gloria Hernández García	Finance and Capital Market Management	Director (Gamesa, S.A.), Director (Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros), Director (Bankinter Consumer Finance, E.F.C., S.A.), Director (Bankinter Global Services, S.A.); Director (Intermobiliaria, S.A.)
Mr Eduardo Ozaita Vega	Corporate Banking Management	Director (Bankinter Global Services, S.A.)
Mrs Gloria Ortiz Portero	Digital Banking Management	Director (Bankinter Global Services, S.A.)
Mr Iñigo Guerra Azcona	Investment Banking Management	Director (Bankinter Securities, S.V., S.A.)

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 2016 amounted to 5,486, compared with 4,405 at 31 December 2015, of which 48.87 were men and 51.13 women.

As at 31 December 2016, the number of employees in Spain was 4,549.

As at 31 December 2016, the number of employees in Portugal was 909.

As at 31 December 2016, the number of employees in Luxembourg was 28.

Major Shareholding

As of the date of this Prospectus, the Issuer's direct and indirect significant shareholders are the following:

Significant + 3%	Direct	Indirect	Total	Subtotal (%)	% voting rights through financial instruments	Total (%)
Mr. Jaime Botín Sanz de Sautuola	10,061	205,580,1881	205,590,249	23.871	-	23.871
Standard Life Investments Ltd.	-	47,147,604	47,147,604	5.245	-	5.245
Blackrock Inc.	-	27,340,867	27,340,867	3.042	0.292	3.334

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 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**").

Tax and legal proceedings

As at the date of this Prospectus, 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 €86.3 million, an amount based on an estimation of the net assets acquired from the entity as of 31 March 2016. The total consideration paid was subsequently adjusted downward in an amount of €24.8 million, following a review of the assets and liabilities transferred.

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, S.A.) completed the acquisition of Barclays Insurance Portugal. Barclays Insurance Portugal has 930 employees and more than €1 billion of assets under management.

The Issuer has by 31 December 2016 successfully integrated the employees, teams, operative systems, IT systems, policies and business of the recently acquired entities.

Listing on the Spanish Alternative Stock Market (Mercado Alternativo Bursátil (MAB)) of Olimpo Real Estate Socimi, S.A

On 22 February 2017 Olimpo Real Estate Socimi, S.A was listed on the Spanish Alternative Stock Market (*Mercado Alternativo Bursátil (MAB)*) and started trading on that market under the code "YORE".

Alternative Performance Measures

In addition to the financial information contained in this Prospectus prepared in accordance with the EU-IFRS, certain "Alternative Performance Measures" ("APMs") are included, as defined by the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057) (the "**ESMA Guidelines**").

The ESMA Guidelines define APMs as a financial measure of past or future financial performance, of financial situation or of cash flows, except for a financial measure defined or detailed in the applicable financial reporting framework.

Bankinter uses certain APMs, which have not been audited, for the purposes of contributing a better understanding of the company's financial evolution. Bankinter considers that these APMs provide useful

information for investors, securities analysts and other interested parties in order to better understand the Group's business, financial position, profitability, results of operations, the quality of its loan portfolio, the amount of equity per share and their progression over time.

These measures should be considered additional information, and in no event do they substitute the financial information prepared under the EU-IFRS. Furthermore, these measures can, both in their definition and in their calculation, differ from other similar measures calculated by other companies and, therefore, may not be comparable.

Other companies in the industry may calculate similarly titled measures differently, such that disclosure of similarly titled measures by other companies may not be comparable with that of the Issuer and the Group. Prospective investors are advised to review these APMs in conjunction with the Group's audited consolidated financial statements and accompanying notes which are incorporated by reference in this Prospectus.

Below is a list of the APMs used by Bankinter:

(a) Non-performing loans ratio ("NPL ratio")

Calculated as the balance of doubtful loans (with off-balance sheet exposure and without country risk), divided by the balance of the total risk.

(b) Non-performing loan coverage

Calculated as the balance of the funds established, divided by the balance of doubtful loans (with off-balance sheet exposure and without country risk).

(c) Efficiency ratio

This is the result of dividing the sum of the staff costs, other general administrative expenses and depreciation and amortisation expenses, by the gross margin.

(d) ROE

This is the result of dividing the annualised net profit by the shareholders' equity on the date (excluding the profit/loss for the year, dividends and remunerations and valuation adjustments).

(e) ROA

This is the result of dividing the annualised attributed net profit by the average total assets on the date.

Reconciliation of Alternative Performance Measures (in €000s, except for percentages)

Set out below is the reconciliation of APMs (in €000s, except for percentages) in the annual audited consolidated financial statements of the Group (including the auditors' report thereon and notes thereto and the relevant Directors' report) as of and for the years ended December 2016 and December 2015.

Ratios		31 December 2016		31 December 2015	
Non-performing loans ratio	Doubtful balance (with off-balance sheet exposure and without country risk) / total risk balance	2,296,743 / 57,308,266	4.01%	2,039,239 / 49,415,783	4.13%
Non-performing loan coverage ratio	Balance of the funds established / the balance of doubtful loans (with off-balance sheet exposure and without country risk)	1,131,359 / 2,296,743	49.26%	856,302 / 2,039,239	41.99%

Efficiency ratio	(Staff costs + other general administrative expenses + depreciation and amortisation) / gross margin.	902,248 / 1,717,389	52.54%	761,054 / 1,568,815	48.51%
ROE	Annualised net profit / Shareholders' equity on the date (excluding the profit for the year, dividends and remunerations and valuation adjustments)	490,109 / 3,636,861	13.48%	375,920 / 3,444,794	10.91%
ROA	Annualised attributed net profit / average total assets on the date.	490,109 / 63,099,911	0.78%	375,920 / 57,084,139	0.66%

TAXATION

Taxation in Spain

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, as well as Royal Decree 1065/2007;
- (b) for individuals resident for tax purposes in Spain who are subject to the Personal Income Tax (“**PIT**”), 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 subject to the Corporate Income Tax (CIT), Law 27/2014, of 27 November, on 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 subject to the Non-Resident Income Tax (“**NRIT**”), 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 Notes.

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 the Notes, 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 Notes 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.

Indirect taxation

The acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

Direct taxation

Individuals with tax residency in Spain

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes 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 Notes 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 Notes, 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 Notes 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 Notes held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes or income obtained upon the transfer, redemption or repayment of the Notes 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 Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Notes that are individuals resident in Spain for tax purposes.

Spanish tax resident legal entities

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes 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).

However, where the Notes are listed on an official OECD market, income obtained by Spanish resident corporate investors will not be subject to withholding tax in accordance with Section 61(s) of the CIT Regulations provided that the Notes comply with the exemption requirements specified in the ruling issued by the Spanish tax authorities (*Dirección General de Tributos*) dated 27 July 2004.

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 Notes 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 Notes held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes or income obtained upon the transfer, redemption or repayment of the Notes may be subject to withholding tax at the current rate of 19 per cent. Such withholding will be made by the depositary or custodian, if the Notes 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 Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Notes that are legal persons or entities resident in Spain for tax purposes.

Non-Spanish tax resident investors

- (a) Non-Spanish resident investors acting through a permanent establishment in Spain

Ownership of the Notes 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 Notes 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 Notes are the same as those for Spanish CIT taxpayers.

- (b) 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 Notes 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 2017. Therefore, they should take into account the value of the Notes which they hold as at 31 December 2017. 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.

- (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 Notes is exempt from NRIT, individuals who do not have tax residency in Spain who hold such Notes 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 Notes which they hold as at 31 December 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 Autonomous Region (*Comunidad Autónoma*) 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 Notes 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 Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Notes in their taxable income for 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 Notes 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 Autonomous Regions (*Comunidad Autónoma*) to EU residents following specific rules.

Non-Spanish resident legal entities which acquire ownership or other rights over the Notes 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 Notes will be exempt from Spanish withholding tax if the procedures for delivering to the Issuer the information set forth in Royal Decree 1065/2007 are complied with.

The First Additional Provision of Law 10/2014 establishes certain reporting obligations in relation to the Notes that must be met each time there is an interest payment on the Notes.

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 "*Terms and Conditions of the Notes*") immediately preceding the date on which any payment of interest, principal or any amounts in respect of the early redemption of the Notes (each, a "**Payment Date**") is due, the Issuer must receive from the Fiscal Agent the following information about the Notes:

- (a) the identification of the Notes 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 Fiscal Agent must certify the information above about the Notes by means of a certificate, on the prescribed form.

In light of the above, the Issuer and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes 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 Notes.

If, before the tenth day of the month following the month in which interest is paid, the Fiscal 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 8.2 (*Taxation*) in “*Terms and Conditions of the Notes*”.

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 Notes who are Spanish PIT or CIT 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 Notes if the Holders do not comply with such information procedures.

Proposed Financial Transaction Tax (“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 Notes (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 Notes 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 Council of the EU on Economic and Financial Affairs indicated in June 2016 that work on the FTT would continue during the second half of 2016. On 11 October 2016, Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation, and Customs announced that the ten participating Member States (excluding Estonia) agreed on certain important measures that will form the core engines of the FTT and indicated their intention to elaborate a draft legislation before the end of the year.

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 and/or certain of the participating Member

States may decide to withdraw. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as “**FATCA**”, a “**foreign financial institution**” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (IGAs), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under “*Terms and Conditions of the Notes — Further Issues*”) that are not distinguishable from previously issued Notes that are characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION, SALE AND TRANSFER

Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bankinter Securities SV, SA., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank and Natixis (the “**Joint Lead Managers**”) have, pursuant to a subscription agreement (the “**Subscription Agreement**”) dated 31 March 2017, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.601 per cent. of the principal amount of the Notes. 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 Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Bank.

United States

The Notes have not been and will not be registered under the Securities Act or securities laws or “blue sky” laws of any state of the United States or any other relevant federal jurisdiction and, accordingly, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (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 Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act. Terms used in this section have the meanings given to them by Regulation S.

Spain

Each Joint Lead Manager severally (and not jointly) has represented and agreed that the Notes may not be offered or sold in Spain other than by institutions authorised under the consolidated text of 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.

The Notes may not be offered, sold or distributed, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Securities Market Law, or without complying with all legal and regulatory requirements under Spanish securities laws (including, if applicable, those established by the Fourth Additional Provision of the Securities Market Law). Neither the Notes nor this Prospectus have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (“**CNMV**”) and therefore this Prospectus is not intended for any public offer of the Notes 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 Notes 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 Notes 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 Notes or has in its possession or distributes this Prospectus (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 Notes 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 Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes, 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 Notes 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 Notes other than as contained in, or which is consistent with, this Prospectus (in final form) or any amendment or supplement to it.

GENERAL INFORMATION

1 Listing

Application has been made to the ISE for the Notes to be admitted to the Official List and trading on the Main Securities Market of the ISE. It is expected that listing of the Notes will take place and that dealings in the Notes on the Main Securities Market will commence on or about 6 April 2017. The Issuer estimates that the expenses related to the admission of Notes to trading on the Main Securities Market are expected to be €4,540.

2 Authorisation

The creation and issue of the Notes have been authorised by resolutions passed by (a) the general meeting of shareholders of the Issuer on 15 March 2012 and (b) the Board of Directors (*Consejo de Administración*) on 25 January 2017.

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 Prospectus, 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 2016, 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 December 2016.

5 Independent auditors

The consolidated financial statements of the Issuer for the year ended 31 December 2015 were 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.

As of 1 January 2016, the Issuer has appointed PricewaterhouseCoopers Auditores, S.L. as auditor for each of the years ended 31 December 2016, 2017 and 2018.

The consolidated financial statements of the Issuer for the year ended 31 December 2016 have been audited by 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.

6 Third party information

The Issuer confirms that where information herein has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, 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 Notes are outstanding, physical copies of the following documents (together with English translations, where applicable) may be inspected, free of charge, during usual business hours from the Bank at Paseo de la Castellana 29, 28046, Madrid, Spain and from the Fiscal Agent at 25 Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

- (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 "*Terms and Conditions of the Notes*");
- (iv) this Prospectus (also available on the Issuer's website); and
- (v) the audited consolidated financial statements of the Issuer as of and for the two years ended 31 December 2016 and 2015 (also available on the Issuer's and CNMV's website).

8 Material Contracts

At the date of this Prospectus, 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 Notes.

9 Interests of Natural and Legal Persons Involved in the Offer of the Notes

Save as discussed in "*Subscription, Sale and Transfer*", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

10 Listing of the Notes: ISIN and Common Code

The Notes will be admitted to listing on the Main Securities Market of the ISE and have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Notes bear the ISIN XS1592168451 and the common code 159216845.

11 Other Relationships

Each Joint Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or its affiliates in the ordinary course of business. 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 Joint Lead Managers 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 Joint Lead Managers 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 securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. 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.

ISSUER

Bankinter, S.A.
Paseo de la Castellana, 29
28046 Madrid
Spain

FISCAL AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
25 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

JOINT LEAD MANAGERS

**Banco Bilbao Vizcaya
Argentaria, S.A.**
Ciudad BBVA
Calle Sucedá 28, Edificio Asia
28050 Madrid
Spain

Banco Santander, S.A.
Gran Vía de Hortaleza 3
28033 Madrid
Spain

Bankinter Securities SV, SA.
Marqués de Riscal 11
28010 Madrid
Spain

**Crédit Agricole Corporate and
Investment Bank**
12, Place de États-Unis
92547 – Montrouge Cedex
Paris, France

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Natixis
30 avenue Pierre Mendès
75013 Paris
France

LEGAL ADVISERS

To the Issuer as to English law and as to Spanish law:

Allen & Overy
Pedro de Valdivia 10
28006 Madrid
Spain

To the Joint Lead Managers as to English law and as to Spanish law:

Linklaters, S.L.P.
Calle Almagro 40
28010 Madrid
Spain

INDEPENDENT AUDITORS TO THE ISSUER

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020, Madrid,
Spain

**PricewaterhouseCoopers
Auditores S.L.**
Torre PwC, Paseo de la Castellana 259 B
28046, Madrid
Spain