

D. Ignacio Ramón Ezquiaga Domínguez, mayor de edad, de nacionalidad española, con domicilio profesional en Madrid, Paseo de Recoletos, 17 (28004), España, y D.N.I. número 02.521.277-V, en vigor, en nombre y representación de Banco Mare Nostrum, S.A., con número de identificación fiscal A-86104189 y domicilio social en Madrid, Paseo de Recoletos, 17 (28004), España, debidamente apoderado al efecto

CERTIFICA

Que el contenido del folleto informativo de admisión a negociación de la emisión denominada "Fixed Rate Reset Subordinated Notes due 16 November 2026" en AIAF Mercado de Renta Fija (el "**Folleto**"), registrado con fecha 17 de noviembre de 2016 por la Comisión Nacional del Mercado de Valores, coincide con la versión en formato electrónico que se adjunta salvo por (i) el rating de la emisión, que ya es definitivo y (ii) la fecha del Folleto.

Asimismo, por la presente se autoriza a la Comisión Nacional del Mercado de Valores para que el Folleto sea puesto a disposición del público a través de su página web.

Y para que así conste y surta los efectos oportunos, en Madrid, a 17 de noviembre de 2016.

Banco Mare Nostrum, S.A.

p.p.

D. Ignacio Ramón Ezquiaga Domínguez



BANCO MARE NOSTRUM, S.A.

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

Euro 175,000,000

Fixed Rate Reset Subordinated Notes due 16 November 2026

The issue price of the Euro 175,000,000 Fixed Rate Reset Subordinated Notes due 16 November 2026 (the "**Notes**") of Banco Mare Nostrum, S.A. (the "**Issuer**", "**BMN**" or "**Banco Mare Nostrum**") is 100 per cent. of their principal amount (as defined in the Conditions).

Unless previously redeemed, the Notes will be redeemed at their outstanding principal amount on 16 November 2026. The Notes may be redeemed at the option of the Issuer at any time in whole, but not in part, at their outstanding principal amount, and subject as provided in the Conditions, in particular to the previous consent of the Regulator (as defined in the Conditions), in the event of certain changes affecting taxation in the Kingdom of Spain (see Condition 6.3 (*Redemption for tax reasons*)), or if a Capital Event (as defined in the Conditions) occurs (see Condition 6.4 (*Redemption at the option of the Issuer (Capital Event)*)). In addition, the Issuer may at its option (subject to prior approval of the Regulator), redeem all, but not some only, of the Notes at their outstanding principal amount (as defined in the Conditions) plus accrued and unpaid interest on 16 November 2021 (the "**Call Date**") (see Condition 6.2 (*Redemption at the option of the Issuer (Issuer Call)*)).

The Notes will bear interest on their principal amount (i) at a fixed rate of 9.000 per cent. per annum from (and including) the Closing Date (as defined in the Conditions) to (but excluding) the Reset Date (as defined in the Conditions) payable annually in arrear on 16 November in each year, with the first Interest Payment Date on 16 November 2017; and (ii) from (and including) the Reset Date, at the applicable 5-year Mid-Swap Rate in respect of the Reset Period, plus 8.960 per cent. per annum as determined by the Agent (as defined in the Conditions), payable annually in arrear on 16 November in each year (each an Interest Payment Date (as defined in the Conditions)), commencing on 16 November 2022. 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 7 (*Taxation*).

This Prospectus constitutes a listing prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union, as amended and implemented in each Member State (the "**Prospectus Directive**") and has been prepared in accordance with, and including the information required by, Annexes XI and XIII of Regulation (EC) No. 809/2004. This Prospectus has been approved by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (the "**CNMV**") in its capacity as competent authority under the consolidated text of the Securities Market Law approved by Legislative Royal Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) (the "**LMV**") and relevant implementing measures in Spain. Application has been made for the Notes to be admitted to trading on the Spanish AIAF Fixed Income Securities Market (*AIAF Mercado de Renta Fija*) ("**AIAF**").

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Lead Manager (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes have been rated "BB-" by Fitch Ratings España, S.A. Sociedad Unipersonal ("**Fitch**").

Fitch is established in the EEA and registered under regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the ESMA website <http://www.esma.europa.eu>.

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.

Structuring Bank and Lead Manager
Deutsche Bank

17 November 2016

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IMPORTANT NOTICES

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

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Information Incorporated by Reference*"). 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.

The Issuer has confirmed to the Lead Manager named under "*Subscription and Sale*" below (the "**Lead Manager**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

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 the Lead Manager. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or 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.

Neither the Lead Manager nor any of its affiliates have independently verified the information contained herein or 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. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, 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.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. The Lead Manager expressly does not undertake to review the financial condition or affairs of the Issuer or to advise any investor in the Notes of any information coming to its attention.

The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer

and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

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

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, 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.

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

In connection with the issue of the Notes, Deutsche Bank AG (the "Stabilising Manager(s)") (or persons acting on behalf of the Stabilising Manager(s)) may over allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may cease 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 Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

The information set out below shall be deemed to be incorporated in, and to form part of, this Prospectus.

Information incorporated by reference:

- (i) Spanish language interim condensed consolidated financial statements together with the review report of PricewaterhouseCoopers Auditores S.L. for the six-month period ended 30 June 2016, available for viewing at:

https://www.bmn.es/servlet/Satellite?c=BMN_Generico_FP&cid=1269877536752&idFamilia=1269877535561&idSubFamilia=1269877535844&idioma=ES&pagename=BMN_%2FBMN_Generico_FP%2FBMN_GenericoDetalleRE&seccion=Webcorporativa&sitename=BMN&idBread=#divMenuItem2&idBread=null&perfil=

- (ii) Spanish language audited consolidated annual accounts together with the audit report of PricewaterhouseCoopers Auditores S.L., as at and for the year ended 31 December 2015, available for viewing at:

https://www.bmn.es/BMN_/BMN/restyle/megabanners/152/74/Colgadas_en_WEB_2.pdf

- (iii) Spanish language audited consolidated annual accounts together with the audit report of Deloitte S.L., as at and for the year ended 31 December 2014, available for viewing at:

https://www.bmn.es/BMN_/BMN/restyle/megabanners/62/1001/Informe%20Anual_2014_Cuentas_Anuales_Indiv_Consol_CNMV_DEFINITIVAS_2.0.pdf

The audited consolidated annual accounts for the years ended 31 December 2014 and 2015 indicated above have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS-EU**"), considering Circular 4/2004 of the Bank of Spain and subsequent amendments. The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", considering Circular 4/2004 of the Bank of Spain and subsequent amendments.

Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

Such documents will be made available, free of charge, during usual business hours at the registered offices of the CNMV. Such documents will also be available to view on the CNMV website (www.cnmv.es) and will be also available to view in English on the Banco Mare Nostrum website (www.grupobmn.es).

OVERVIEW

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 the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this overview.

The Issuer:	Banco Mare Nostrum, S.A., incorporated in the Kingdom of Spain.
Structuring Bank:	Deutsche Bank AG
Lead Manager:	Deutsche Bank AG
The Notes:	Euro 175,000,000 Fixed Rate Reset Subordinated Notes due 16 November 2026.
Issue Price:	100 per cent. of the principal amount of the Notes.
Closing Date:	Expected to be on or about 16 November 2016.
Use of Proceeds:	See " <i>Use of Proceeds</i> ".
Interest:	<p>The Notes will bear interest on their outstanding principal amount (i) at a fixed rate of 9.000 per cent. per annum from (and including) the Closing Date to (but excluding) the Reset Date (as defined in the Conditions) payable annually in arrear on 16 November in each year, with the first Interest Payment Date on 16 November 2017; and (ii) from (and including) the Reset Date (as defined in the Conditions), at the applicable 5-year Mid Swap Rate in respect of the Reset Period, plus 8.960 per cent. per annum as determined by the Agent, payable annually in arrear on 16 November in each year (each an Interest Payment Date (as defined in the Conditions)), commencing on 16 November 2022.</p> <p>All as more particularly described in Condition 4 (<i>Interest and Other Calculations</i>) of the Terms and Conditions of the Notes.</p>
Status:	The Notes are subordinated, unconditional and unsecured obligations of the Issuer. All as more particularly described in Condition 3 (<i>Status of the Notes</i>) of the Terms and Conditions of the Notes.
Form and Denomination:	The Notes will be issued in uncertificated, dematerialised book-entry form (<i>anotaciones en cuenta</i>) and will be registered with the <i>Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal</i> (" Iberclear ") as managing entity of the central registry of the Spanish clearance and settlement system (the " Spanish Central Registry ") and its member entities (" Iberclear Members "). The Notes will be in the denomination of €100,000.
Final Redemption:	16 November 2026.

Optional Redemption:	The Notes may be redeemed in whole prior to their stated maturity at the option of the Issuer in accordance with Condition 6.2 (<i>Redemption at the option of the Issuer (Issuer Call)</i>).
Tax Redemption:	Early redemption will be permitted for tax reasons at the option of the Issuer in accordance with Condition 6.3 (<i>Redemption for tax reasons</i>).
Regulatory Redemption:	Early redemption will be permitted for regulatory reasons at the option of the Issuer if a Capital Event (as defined in the Conditions) occurs, in accordance with Condition 6.4 (<i>Redemption at the option of the Issuer (Capital Event)</i>).
Rating:	<p>The Notes have been rated "BB-" by Fitch.</p> <p>In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.</p> <p>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.</p>
Withholding Tax:	<p>All payments in respect of Notes will be made free and clear of withholding taxes of the Kingdom of Spain, as the case may be, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 7 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.</p> <p>See "<i>Taxation in Spain</i>".</p>
Governing Law:	The title and transfer of the Notes as described in Condition 2.3 (<i>Title and transfer</i>) and the status of the Notes as described in Condition 3 (<i>Status of the Notes</i>) shall be construed in accordance with, Spanish law. The Notes (save as provided above) and any non-contractual obligations arising out of or in connection with the Notes are governed by, and shall be construed in accordance with, English law. The Notes are issued in accordance with the formalities prescribed by Spanish law.
Listing and Trading:	Application has been made for the Notes to be admitted to trading on the AIAF, the Spanish market for trading in fixed income securities issued by industrial companies, financial institutions and regional public bodies.
Clearing Systems:	Iberclear.

Holders of a beneficial interest in the Notes who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Notes through bridge accounts maintained by each of Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream Luxembourg**"), with Iberclear.

Selling Restrictions:

See "*Subscription and Sale*".

Risk Factors:

Investing in the Notes involves risks. See "*Risk Factors*".

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the industry in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Prospectus and their personal circumstances.

BMN declares that, when preparing the information contained in this Prospectus, it has taken into account the instructions and recommendations received, as the case may be, from the prudential supervisors –the European Central Bank and the Bank of Spain, which could have any kind of impact on the financial statements and on the risks indicated below.

Risks Relating to the Issuer

BMN is subject to a restructuring and recapitalisation plan.

The Memorandum of Understanding on Financial Sector Policy Conditionality entered into on 20 July 2012 between the Kingdom of Spain and the Heads of State and Government of the Euro Area (the "MoU") set a strict timeline for the recapitalisation and restructuring of certain Spanish banks (including BMN) based on the results of a bottom-up stress test and asset quality review conducted by the independent consultant Oliver Wyman (the "MoU Stress Test"). On 28 September 2012, the results of the MoU Stress Test revealed that BMN had a capital shortfall of €2,208 million under the adverse scenario and €368 million in the base case for the three year time horizon (2012-2014) of that exercise. On 31 October 2012, the Bank of Spain announced that BMN would need to resort to public support, and, pursuant to the MoU classified BMN as a Group 2 bank. As a result of BMN's classification as a Group 2 bank, BMN could only receive additional public capital from the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria* or "FROB") once BMN's restructuring and recapitalisation plan (the "**Restructuring Plan**") had been approved by the European Commission (European Commission decision of 20 December 2012 (State aid n° SA.35488 (2012/N) – Spain Restructuring of Banco Mare Nostrum, S.A.; C(2012) 9886 FINAL)).

The Restructuring Plan which intends to ensure BMN's long-term viability, was approved by the Bank of Spain, the FROB and the European Commission in December 2012. In accordance with the MoU and Royal Decree-Law 24/2012 (which was later replaced by Law 9/2012, of 14 November, on credit institution restructuring and resolution ("**Law 9/2012**"), which, in turn has been replaced by Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms ("**Law 11/2015**")), the Restructuring Plan sets forth BMN's primary objectives for the coming years. The foremost measure to achieve the intended structural change is a refocusing of BMN's activities on its core business lines in its traditional core regions, the hiving-off of the real estate developments loans to the *Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, Sociedad Anónima* ("**SAREB**") (Management Company for Assets Arising from Banking Sector Reorganisation) and the closing-down of activities outside BMN's core regions, as well as an adjustment of the loan book to match the available funding through deposits. On 19/20 December 2012, the Term Sheet of the Spanish Authorities Commitments for the Approval of the Restructuring Plan of Banco Mare Nostrum by the European Commission (the "**Term Sheet**"), which develops the Restructuring Plan by setting out the terms for BMN's recapitalisation and restructuring, which BMN and the Kingdom of Spain have committed to implement, was also approved. The restructuring period under the Restructuring Plan is set to end on 31 December 2017.

The Restructuring Plan has required and continues to require certain actions by and has imposed and continues to impose certain restrictions on BMN, in particular reductions to its loan book size (from €42.4 billion as at 31 December 2012 to €25.5 billion as at 31 December 2016; as at 30 June 2016 the loan book size was €23.0 billion), limitations on the size of BMN's balance sheet (a 31.3 per cent. reduction in the size of BMN's balance sheet in the period from December 2012 to December 2017 and a balance sheet size that may not surpass €45 billion as of 31 December 2016 (as at 30 June 2016 total assets amounted to €40.6 billion)), and limitations on its loan to deposit ratio (must be 109 per cent. or below at 31 December 2016 (as at 30 June 2016 the loan to deposit ratio was 97 per cent.)). Two other action points that have also been carried out are a reduction in the number of BMN's branches (from 1,364 as at 30 December 2012 to 795 as at 31 December 2014; as at 30 June 2016 the number of branches was 682) and a reduction in the number of full-time equivalent employees ("FTEs") (from 7,055 as at 31 December 2012 to 4,189 as at 31 December 2014; as at 30 June 2016 the number of FTEs was 3,904), among others.

Any of the foregoing actions or restrictions, and any other actions or restrictions set forth in or resulting from the Restructuring Plan, could limit BMN's potential for growth, affect BMN's ability to compete with other banks and financial institutions, require BMN to sell assets at times when BMN would not otherwise do so or under conditions that BMN would not otherwise accept (BMN has committed to sell its investment in certain unlisted companies by December 2017), or otherwise have material adverse effects on BMN's business, results of operation and financial condition. Moreover, to the extent that BMN does not comply with deadlines and measures set forth in the Restructuring Plan, including the requirement to be listed before 31 December 2017, the relevant authorities could ultimately initiate the winding down of BMN's business or require BMN to sell or transfer its assets or liabilities to a third party.

The FROB is the BMN's controlling shareholder.

In December 2010, BMN received a capital injection of €15 million in preferred convertibles securities (*participaciones preferentes convertibles*) ("PPCs") from the FROB. Subsequently, on 19 February 2013, the PPCs subscribed by the FROB were converted into 323,756,409 new shares of BMN, each with a nominal value of €1 and a share premium of €1.826 per share.

In addition, on 18 February 2013, the Board of Directors and the shareholders (at a general shareholders' meeting) of BMN approved a cash capital increase of €730 million (par value plus share premium), through the issuance of 725,554,629 new shares of BMN, which were fully subscribed by the FROB on 12 March 2013. The shares were paid with bonds issued by the European Stability Mechanism ("ESM"), which are admitted to trading on the Luxembourg Stock Exchange.

As of the date of this Prospectus, the FROB holds a 65.0 per cent. interest (both economic and voting) in BMN. Accordingly, as per article 32 of Law 11/2015, the FROB has control over 65 per cent. of the votes of all governing bodies of BMN, regardless of the number of directors it has (it currently has one).

The interests of the FROB as a public entity may differ from BMN's interests or the interests of BMN's other shareholders or creditors, especially in light of the FROB's controlling interests in other competitor banks which are also undergoing restructuring. Moreover the FROB controls decisions with respect to strategic transactions of BMN and could, for example, prevent a merger that would otherwise be beneficial to BMN and BMN's other shareholders or creditors. In addition, as the FROB's interest in BMN is inherently temporary, its influence as a shareholder as well as its transition out of holding BMN's shares could have a material adverse effect on its business, financial condition, results of operations and prospects.

The transfer price paid to BMN by the SAREB may be revised, which could require BMN to make unexpected cash payments or cause BMN to suffer adverse tax consequences.

In February 2013, BMN transferred to the SAREB (i) loans to developers exceeding a net book value of €250,000, and (ii) foreclosed real estate assets exceeding a net book value of €100,000. The perimeter of the transferred assets was established under the supervision of the FROB and the Bank of Spain, based on the categorisation of assets and in accordance with the transfer criteria established specifically for each type of asset in Law 9/2012 and Royal Decree 1559/2012, of 15 November.

The transfer value was determined by the Bank of Spain based on the economic value of the assets transferred to the SAREB and in accordance with the measurement bases established, specifically for each type of asset, in the aforementioned regulation.

Assets transferred to the SAREB totalled €5,819.6 million (the "**SAREB Transfer Price**"), which was paid through the delivery of senior notes (with a nominal aggregate amount €5,819.6 million) issued by the SAREB with the irrevocable guarantee of the Spanish government (the "**SAREB Senior Notes**"). According to the European Commission decision of 20 December 2012, the transfer price to the SAREB for these assets was above their market value by approximately €2.1 billion. The SAREB Transfer Price may be revised for a period of 36 months (period currently extended by mutual agreement to 28 April 2017), for example if valuation errors or inappropriate classifications are identified. As at the date of this Prospectus, these ongoing revisions have led to a return of assets totalling approximately €28.1 million by the SAREB to BMN and, in return, BMN transferred SAREB Senior Notes to the SAREB, in a principal amount plus cash adjustments totalling the same amount (€25.0 million was returned in 2013, €2.6 million in 2014 and €0.5 million in 2015). As at 30 June 2016 BMN holds SAREB Senior Notes in an amount of €5,451 million. If another such revision of the SAREB Transfer Price occurs that requires BMN to return a substantial amount of cash to the SAREB or that has a negative tax consequence to BMN resulting from an adjustment to the valuation, it could have an adverse effect on BMN's business, financial condition, results of operations and prospects.

BMN may be liable for losses faced by Banco de Sabadell, S.A. in connection with the portfolio of loans transferred to them.

In accordance with the MoU, on 18 December 2012, BMN entered into an Asset and Liability Transfer Agreement with Banco de Sabadell, S.A. ("**Banco Sabadell**") for the transfer of the banking business of 462 branches (consisting mainly of the former Caixa Penedès network), as well as over 2,000 employees assigned thereto (the "**Sabadell Agreement**").

The price initially paid by Banco Sabadell to BMN for this acquisition totalled €337 million (based on the evaluation, as of 28 February 2013, of the assets and liabilities to be transferred to Banco Sabadell, which totalled €9,950 million and €9,613 million, respectively). Subsequently, following completion of the transaction on 31 May 2013, the assets and liabilities to be transferred were definitively valued at €9,779 million and €9,631 million, respectively. Accordingly, the final consideration paid by Banco Sabadell for the sale of these assets and liabilities totalled €148 million.

Pursuant to the Sabadell Agreement, with respect to certain loans (totalling approximately €335 million as of the date of the agreement) transferred to Banco Sabadell, BMN has agreed to share a portion of the losses incurred on such loans over a ten-year period, provided losses exceed 35 per cent. of the value of the transferred portfolio as of the transfer date. In particular, BMN will indemnify Banco Sabadell in an amount equal to 70 per cent. of any loss once the above-mentioned threshold is surpassed. As at the date of this Prospectus no payment in respect of this indemnification has been requested by Banco Sabadell.

The implementation of the loss-sharing agreement referred to above may have material adverse effects on BMN's business, results of operation and financial condition.

Highly-indebted households and corporations could endanger BMN's asset quality and future revenues.

BMN's portfolio is mainly comprised of loans to households and corporations located in Spain. 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 BMN's loan portfolio and, as a result, on BMN's 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 BMN may otherwise be able to sell them and limiting BMN's ability to attract new customers in Spain satisfying its credit standards, which could have an adverse effect on BMN's business, financial condition, results of operations and prospects.

As of 30 June 2016, BMN's non-performing loans ratio ("**NPL ratio**") (which is the ratio of non-performing loans ("**NPLs**") over its total loans) was 10.8 per cent. compared to 11.9 per cent. and 13.79 per cent. as of 31 December 2015 and 2014. The Issuer's loans and advances to customers provisions were €1,028.6 million as of 30 June 2016, compared to €1,147.7 million and €1,391.4 million as of 31 December 2015 and 31 December 2014, respectively. If BMN's provisions and other reserves were to prove inadequate, whether because of an economic downturn, new regulatory requirements or a significant breakdown in its credit risk management procedures, or any combination thereof, BMN may have to make significant additional provisions for possible impairment losses in future periods. In addition, BMN has entered into a loss sharing agreement with Banco Sabadell and BMN may be liable for losses faced by Banco Sabadell, as defined in the risk "BMN may be liable for losses faced by Banco Sabadell in connection with the portfolio of loans transferred to them".

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

Over the early parts of the past decade, the Spanish real estate market grew due to various factors, including general economic growth in Spain, low interest rates, the lengthening of mortgage loan repayment terms, and decreases in unemployment and increases in disposable income among Spanish households, among other factors. During late 2007, prices in the housing market began to adjust downwards in Spain as a result of excess supply and higher interest rates. From 2008 to 2013, Spanish real estate prices continued to decline due to deteriorating economic conditions and various regulatory initiatives, including the increase in the value added tax rate imposed on real estate transactions, the elimination of certain personal income tax credits related to investment in residential real estate investment and the increase in property tax rates, among other reasons. Spanish real estate prices started to recover in 2015 and the recovery has continued through 2016. Nonetheless, excess supply in the market continues to exist, putting downward pressure on prices.

While BMN's exposure to the Spanish real estate market was substantially reduced following BMN's transfer of real estate-related assets to the SAREB, BMN continues to have certain exposure to such market and a deterioration of Spanish real estate prices could materially and adversely affect its business, financial condition and results of operations. BMN is exposed to the Spanish real estate market due to the fact that Spanish real estate assets secure part of BMN's outstanding loans, due to the Spanish real estate assets held on BMN's balance sheet, including real estate received in lieu of payment for certain underlying loans and due to the loss sharing agreement entered into with Banco Sabadell —see "*BMN may be liable for losses faced by Banco de Sabadell, S.A. in connection with the portfolio of loans transferred to them*". Furthermore, BMN has restructured certain of the loans made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices.

At 30 June 2016, loans for property construction and/or development amounted to €729.5 million, which is 3.11 per cent. of the Issuer's total gross lending to customers. Specific coverage (NPLs and sub-standard) for this exposure amounted to €10.1 million at the same date. The NPL ratio on loans to real-estate developers was 65.87 per cent. at 30 June 2016. Of the €729.5 million indicated, €62.6 million corresponds to loans secured by mortgages, while €66.9 million corresponds to unsecured loans.

The net carrying amount of the portfolio of property acquired or foreclosed at 30 June 2016 was €1,047.4 million and was covered by net provisions of €351.1 million. BMN is analysing different alternatives regarding the disposal of these foreclosed assets.

If Spanish real estate prices fail to recover, BMN's business may be materially adversely affected, which could materially and adversely affect BMN's business, financial condition and results of operations.

BMN's business is significantly affected by credit and counterparty risk.

BMN is exposed to many different counterparties in the normal course of its business. In particular, BMN routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of the routine transactions the Issuer enters into expose BMN to significant credit risk in the event of default by one of BMN's significant counterparties. Despite the risk control measures BMN 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 BMN's business, financial condition, results of operations and prospects.

Liquidity risk is inherent in BMN's operations and volatility in global financial markets, particularly in the inter-bank and debt markets, could materially adversely affect its liquidity position and credit volume.

Liquidity risk comprises uncertainties in relation to BMN's ability, under adverse conditions, to access funding necessary to cover BMN's obligations to customers as they become due, to meet the maturity of its liabilities and to satisfy liquidity 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 its liabilities reasonably in line with its assets.

Since 2010, the Issuer has benefitted from several aid measures which have had a significant impact on its ability to fund itself. In addition to the capital injections referred to above and the transfer of the SAREB Senior Notes (Please see "*The transfer price paid to BMN by the SAREB may be revised, which could require BMN to make unexpected cash payments or cause BMN to suffer adverse tax consequences*" above), the Kingdom of Spain has also provided BMN with guarantees to issue government guaranteed bonds.

In addition, BMN has also relied significantly on central bank funding. At 30 June 2016, the effective amount of assets pledged to obtain central bank funding was €4,903.6 million, of which €672 million of funding was still available for use by BMN. In addition, BMN's group (the "**Group**") had €4,442.6 million in eligible assets outside the credit facility. At 31 December 2015, the effective amount of assets pledged to obtain central bank funding was €5,749.1 million, of which €1,517.5 million of funding was still available for use by BMN, with €4,713.6 million in eligible assets outside the credit facility.

Another material source of liquidity and funding is BMN's customer deposit base (€22.7 billion and €22.8 billion as at 31 December 2015 and 30 June 2016 respectively). The volume of customer deposits and wholesale funding sources, in particular long-term funding, may be constrained during periods of liquidity stress or during periods of significant interest rate-based competition for these types of deposits. In recent years, the prevalence of historically low interest rates has resulted in customers favouring alternative financial products with greater profitability potential over savings accounts or certificates of deposit. In addition, the Restructuring Plan limits BMN's ability to compete with other banks for customer deposits as well as other products. The level of wholesale and retail deposits may also fluctuate due to other factors (some of which are beyond BMN's control), such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds such as the introduction of national taxes through the Law 8/2014 of 15 October, on urgent measures for growth, competitiveness and efficiency ("**Law 8/2014**"), on outstanding deposits).

In the event that BMN's depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans or in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which the Issuer operates, BMN cannot assure that the Issuer will be able to maintain its current levels of funding (taking into account, among others, the Restructuring Plan's restrictions) without incurring higher funding costs or having to liquidate certain of its assets and resulting in an adverse effect on its liquidity, business, financial condition, results of operations and prospects.

Volatility in the global credit markets, coupled with the re-pricing of credit risk, has negatively affected the inter-bank markets and there have been periods when many lenders have reduced or ceased to provide funding to borrowers, including financial institutions, which has led to significant volatility, limited or no liquidity, widening of credit spreads and a lack of price transparency in certain markets. Continued volatility in the financial sector and the capital markets, or the default, or concerns about the default, of one or more institutions, could lead to significant market-wide liquidity problems, losses by or further defaults of other financial institutions. If current market conditions and circumstances remain volatile or deteriorate further, or continue for prolonged periods of time, there may be a decline in available funding, credit quality and increases in defaults and non-performing debt, which may have a negative impact on BMN's liquidity, business, financial condition, results of operations and prospects.

Specific ways that the Issuer could find its liquidity further impaired include the following: (i) BMN's ability to sell certain assets may be impaired if other market participants are seeking to sell similar assets at the same time or if the market value of such assets, including financial instruments underlying derivative transactions to which BMN is a party, is difficult to ascertain; (ii) financial institutions with which BMN interacts may exercise set-off rights or the right to require additional collateral, which could further impair BMN's liquidity position; (iii) if the customers with whom BMN has outstanding but

undrawn lending commitments were to draw down on these credit lines at a rate that is higher than BMN is anticipating; (iv) if the ECB were to suspend its repurchase program, and if no similar source of repurchase financing were to exist in the market at that time, or if the securities BMN holds become ineligible for use as collateral for ECB refinancing due to ratings downgrades (including sovereign downgrades) or otherwise; (v) an increase in interest rates or credit spreads, as well as any restriction on the availability of credit, including, but not limited to, inter-bank credit, could impact BMN's ability to borrow on a secured or unsecured basis; or (vi) BMN's failure to comply with the requirements set forth in its Restructuring Plan.

Any of these events could cause BMN to curtail its business activities, force BMN to sell certain of its assets at a loss or increase its cost of funding, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

BMN faces market risk associated with fluctuations in bond and equity prices and other market factors inherent in its business, which could lead to asset write-downs and the realisation of impairment charges.

BMN is exposed to market risk as a consequence of its trading activities in financial markets and through the asset and liability management of its overall financial position, including its trading portfolio. Market risk entails the risk of a decline in the value of BMN's investment holdings or its trading results as a consequence of fluctuations of interest rates, foreign exchange rates, and commodity and equity prices. The performance of financial markets could cause changes in the value of its investment and trading portfolios. To the extent current market conditions deteriorate, the fair value of BMN's trading portfolios (amounting to €66.7 million) could fall more than currently estimated, and therefore cause BMN to record write-downs. Future valuations of the assets for which the Issuer has already recorded or estimated write-downs, which reflect the then-prevailing market conditions, may result in significant changes in the fair values of these assets. Further, the value of certain financial instruments are recorded at fair value which is determined by using financial models that incorporate assumptions, judgements and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for BMN in the case of any asset devaluations. Any of these factors could require BMN to recognise further write-downs or realise impairment charges, which may have a material adverse effect on BMN's business, financial condition, results of operations and prospects.

Volatility in global equity markets has had in the past, and may continue to have, a particularly strong impact on the financial sector. Continued volatility such as that experienced in recent years may affect the value of BMN'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 BMN's results.

BMN's business is particularly vulnerable to volatility in interest rates.

BMN's results of operations are substantially dependent 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 (as at 30 June 2016 the percentage of net interest income of BMN over its gross income was 52 per cent., as at 31 December 2015 such percentage was 46 per cent.). Interest rates are highly sensitive to many factors beyond BMN's control, including fiscal and monetary policies of governments and central banks, regulation of the financial sectors in the markets in which BMN operates, domestic and international economic and political conditions and other factors. Changes in market interest rates can affect the interest rates that BMN receives on BMN's interest-earning assets differently than the rates that BMN pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income BMN receives, which could have a material adverse impact on the Issuer's 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. In addition, a rise in interest rates could reduce the demand for credit and BMN's ability to generate credit for its clients, as well as contribute to an increase in the credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse impact on BMN's business, financial condition, results of operations and prospects.

Legal, Regulatory and Compliance Risks

BMN is subject to substantial regulation and regulatory and governmental oversight.

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. Legislation has already been enacted and regulations issued in response to many of these proposals, and these increased levels of government and regulatory intervention in the banking sector are expected to continue for the foreseeable future. This creates significant uncertainty for BMN and the financial industry in general. The wide range of recent actions or current proposals 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, the creation of a single supervisory mechanism (the "SSM") and a single resolution mechanism (the "SRM") within the Eurozone, 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, BMN is subject to a higher level of scrutiny and oversight by Spanish and EU regulators than some of BMN's peers given that BMN is subject to the Restructuring Plan.

Moreover, new accounting standards or pronouncements that may become applicable to the Group from time to time, or changes in the interpretation of existing standards and pronouncements, could have a significant effect on BMN's reported results for the affected periods.

In particular, BMN's results and consequently the Common Equity Tier 1 ("CET1") ratio 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 a methodology for calculating the expected credit losses for all types of exposures including forborne operations. The final version of IFRS 9, published on 24 July 2014, indicates the classification, measurement, impairment and hedge accounting phases for financial instruments in order to replace IAS 39. The Group is analysing the impact that this standard may have on its consolidated financial statements if adopted by the European Union. In particular, this matter refers to the estimate of the provisions for insolvencies through the development of a method for calculating expected losses. As at the date of this Prospectus, a working plan supporting the implementation of this standard is in progress and therefore it is not possible to quantify the potential impact the application of the standard could have on the Group's consolidated annual accounts for 2016. These changes to IFRS 9 may become effective for the preparation of financial statements issued after 1 January 2018.

Similarly, Circular 4/2016 of the Bank of Spain may also affect BMN having an impact on the policies applicable to the approval, amendment, evaluation, monitoring and control of BMN operations and it may have an impact on its provisions for credit risk. Bank of Spain Circular 4/2016 was published on 27 April 2016, modifying, among other things, the policies for granting, monitoring and control of credit transactions, their accounting classification and the hedging estimate for credit risk and real estate assets received as payment for debts, previously defined by Bank of Spain Circular 4/2004, which it amends. Circular 4/2016, which will apply to the financial statements relating to the financial year ending 31 December 2016, introduces the possibility to use internal methodologies based on estimating models in order to calculate certain provisions. In this regard, neither the application of its models and internal methodologies, nor the modification of the internal procedures for monitoring and validating risks and the information systems necessary to adapt to these regulations have been finalised, nor have they received internal approvals, which means that BMN cannot yet predict the impact that such modifications may have, but the overall effect is expected to have an impact on CET1 of around 20 basis points.

The specific effects of a number of new laws, regulations and standards remain uncertain because the drafting and implementation of these laws and regulations are still ongoing. In addition, since some of these laws, regulations and standards have been recently adopted, the manner in which they are applied to the operations of financial institutions is still evolving. No assurance can be given that laws, regulations or standards will be enforced or interpreted in a manner that will not have a material adverse effect on BMN's business, financial condition, results of operations and prospects. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

As a result of the increased levels of government and regulatory intervention in the banking sector, BMN is now facing a significant increase in compliance costs. In addition, BMN 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.

Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect BMN's ability to compete with financial institutions based in other jurisdictions that do not need to comply with such new standards or regulation. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as BMN.

Furthermore, any required changes to BMN's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit BMN's ability to pursue business opportunities in which BMN might otherwise consider engaging, affect the value of assets that it holds, require BMN to increase its prices and therefore reduce demand for its products, impose additional costs on BMN or otherwise adversely affect its business. For example, BMN is subject to substantial regulation relating to liquidity. Future liquidity standards could require BMN to maintain a greater proportion of BMN's assets in highly-liquid but lower-yielding financial instruments, which would negatively affect BMN's net interest margin. Moreover, BMN's regulators, as part of their supervisory function, periodically review its allowance for loan losses. Such regulators may require BMN to increase its allowance for loan losses or to recognise further losses. Any such additional provisions for loan losses, as required by these regulatory agencies whose views may differ from those of BMN management, could have an adverse effect on BMN's earnings and financial condition, including on BMN's CET1 ratio and on BMN's ability to pay distributions.

BMN is also subject to other regulations, such as those related to anti-money laundering, privacy protection, consumer protection laws or taxation.

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

Legislation designed to strengthen the Spanish financial sector and regulate the activities of European banks generally may materially impact BMN.

Against the backdrop of the worldwide economic crisis, Spain and the EU have implemented a number of new regulations designed to strengthen the financial sector, which, in Spain, was particularly weakened by increased delinquency rates in loans (mainly as a result of the high unemployment rates), declining real estate prices and economic contraction. The regulations which most significantly affect BMN, or which could most significantly affect BMN in the future, include regulations relating to capital requirements, which have become increasingly strict in the past three years and steps taken towards achieving a fiscal and banking union in the EU. These risks are discussed in further detail below.

BMN is not able to determine the impact that these and any additional regulations may have. There can be no assurance that these new directives, regulations and developments will not adversely affect BMN's ability to pay dividends or distributions, for example, or require BMN to issue additional securities that qualify as regulatory capital, to liquidate assets, to deleverage BMN's business or to take any other actions, any of which may have material adverse effect on its business, financial condition, results of operations and prospects. In addition, there can be no assurance that additional capital or provision requirements, or other stringent requirements, will not be adopted by the authorities in the jurisdictions where BMN operates. Failure to comply with existing or new legislation could have a material adverse effect on BMN's business, financial condition, results of operations and prospects.

Capital and liquidity

In December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks (the "**Basel III accords**"). The Basel III accords raised the quantity and quality of capital required to be held by a financial institution with an emphasis on CET1 capital and introduced an additional requirement for both a capital conservation buffer and a countercyclical buffer to be met with CET1 capital.

The Basel III accords were transposed into EU law by the enactment of Directive 2013/36/EU, of 26 June, of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**CRD IV Directive**"), which implements the Basel III capital standards over a phase-in period until 1 January 2019, and the Regulation 575/2013, of 26 June, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation 648/2012 ("**CRR**" and together with the CRD IV Directive and any CRD IV implementing measures, "**CRD IV**"). A number of the requirements introduced under CRD IV have been and continue to be further supplemented through the Regulatory and Implementing Technical Standards.

As a Spanish financial institution, BMN is subject to the CRD IV. The CRR has been applicable since 1 January 2014 and the CRD IV has been implemented in Spain by Royal Decree-Law 14/2013, of November 29 (the "**RD-L 14/2013**"), Law 10/2014, of June 26, on organisation, supervision and solvency of credit institutions ("**Law 10/2014**"), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 ("**RD 84/2015**"), and Bank of Spain Circular 2/2014, of 31 January, of the Bank of Spain and Circular 2/2016, of 2 February, of the Bank of Spain to credit entities, on supervision and solvency, which completes the adaptation of Spanish law to CRR and the CRD IV Directive ("**Bank of Spain Circular 2/2016**").

The new regulatory regime has, among other things, increased the level of capital required by means of a combined set of capital buffers that entities must comply with. Under CRD IV, BMN is required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets ("**RWAs**"), of which at least 4.5 per cent. of RWAs must be CET1 capital and at least 6 per cent. of RWAs must be Tier 1 capital (together, the "**Pillar 1 requirements**").

Moreover, in addition to the Pillar 1 requirements, supervisory authorities may impose further Pillar 2 capital requirements to cover other risks, including those not considered to be fully captured by the Pillar 1 requirements or to address macro-prudential considerations. This may result in the imposition of further CET1, Tier 1 and total capital requirements on the Group pursuant to this Pillar 2 framework.

The new regulatory regime has also increased the level of capital required by means of a "combined buffer requirement" which is required to be satisfied with CET1 capital. The "combined buffer requirement", has introduced five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. While the capital conservation buffer and the global systemically important institutions ("**G-SIBs**") buffer are mandatory, the Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the buffer for institutions deemed of local systemic importance (domestic systemically important banks or "**D-SIBs**") and the buffer for other systemic risks (to prevent systemic or macro prudential risks). The European Central Bank ("**ECB**") also has the ability to provide certain recommendations in this respect. BMN has not been classified as a 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, it will not be required to maintain the G-SIB buffer. Likewise, BMN has not been considered a D-SIB during 2016 and, thus, it will not be required to maintain a D-SIB buffer during this period. In addition, the Bank of Spain has not required BMN to maintain the systemic risk buffer. Consequently, as at the date of this Prospectus, BMN is only required to maintain the capital conservation buffer (0.625 per cent. in 2016, to increase yearly, reaching 2.5 per cent. in 2019) and the countercyclical capital buffer (the Bank of Spain agreed in September 2016 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the fourth quarter of 2016, the percentages will be revised each quarter). However, some or all of the other buffers may also apply to BMN from time to time as determined by the Bank of Spain, the ECB or any other competent authority.

In accordance with Council Regulation (EU) No 1024/2013, of 15 October, conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the "**SSM Regulation**"), the ECB has fully assumed its new supervisory responsibilities of BMN within the SSM (which include assessing additional Pillar 2 capital requirements to be complied). The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the "**SREP**") at least on an annual basis.

The European Banking Authority ("**EBA**") published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP which contained guidelines (the "**EBA**

SREP Guidelines) for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Accordingly, any additional "Pillar 2" own funds requirement that may be imposed on BMN by the ECB pursuant to the SREP will require BMN to hold capital levels above the Pillar 1 requirements and the "combined buffer requirement". The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the "combined buffer requirement" and/or additional macro-prudential requirements.

As a result of the SREP carried out by the ECB in 2015, BMN was informed by the ECB that, as at 31 December 2015, it is required to maintain a CET1 phased-in capital ratio of 9.5 per cent. on a consolidated basis. No later than 31 December 2016 CET1 phased-in capital ratio should increase to 10.25 per cent. This CET1 capital ratio of 10.25 per cent. on a consolidated basis includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.) and the additional own funds requirement under "Pillar 2", including the capital conservation buffer. As of 31 December 2015, BMN's CET1 phased-in capital ratio was 11.1 per cent. on a consolidated basis (11.4 per cent. as of 30 June 2016). As of 31 December 2015, BMN's CET1 fully loaded capital ratio including available for sale unrealised sovereign exposure capital gains (i.e. applying all capital deductions without taking into account the transitional provisions set out in CRD IV) was 11.1 per cent. on a consolidated basis (11.3 per cent. as of 30 June 2016).

On 1 July 2016 the EBA published additional information on how the results of the EU-wide stress test will affect the SREP process (the "**2016 EBA Information Update**"). In the 2016 SREP process, it will consist of Pillar 2 requirements ("**P2R**") and Pillar 2 guidance ("**P2G**"). Banks are expected to meet the P2G which will be set above the level of binding capital requirements (Pillar 1 and P2R) and on top of the combined buffers. P2R are binding and breaches can have direct legal consequences for banks. P2G is not directly binding and a failure to meet P2G does not automatically trigger legal action and is irrelevant for the maximum distributable amount ("**MDA**") trigger. If a bank does not meet its P2G, supervisors will carefully consider the reasons and circumstances and may define fine-tuned supervisory measures.

BMN has received a draft of the SREP decision for 2017 (the "**draft SREP 2016**"). According to the draft SREP 2016, BMN will be required to maintain, on a consolidated basis, a Total SREP Capital Requirement ("**TSCR**"), as that ratio is defined in section 1.2 of the EBA SREP Guidelines, of 10.5 per cent. The TSCR includes:

- i. Minimum own funds requirement of 8 per cent. (Pillar 1), consisting of CET1 ratio of 4.5 per cent., Additional Tier 1 ratio of 1.5 per cent. and Tier 2 ratio of 2 per cent.; and
- ii. Additional own funds of 2.5 per cent. (P2R), to be made up of CET1 capital.

BMN is also subject to the overall capital requirement, which includes, in addition to the TSCR, the "combined buffer requirement" which amounts to 1.25 per cent. of CET1 ratio in 2017.

It must be noted that the draft SREP 2016 is a draft and shall not be final and binding until it is adopted by the governing council of the ECB.

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 P2R on BMN. Any failure by BMN to maintain its minimum Pillar 1 requirement, its P2R and/or any "combined buffer requirement" could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on BMN's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the P2R or any other capital requirements to which BMN is or becomes subject (including the "combined buffer requirement"), may result in the imposition of restrictions or prohibitions on discretionary payments by BMN, including dividend payments.

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 MDA calculation is limited to the amount not used to meet the Pillar 1 and Pillar 2 own funds requirements of the institution. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the

consequences for an institution of its capital levels falling below those necessary to meet these requirements. The December 2015 EBA Opinion should be read together with the 2016 EBA Information Update, which excludes P2G from the MDA trigger.

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

The draft SREP 2016 also contains a restriction on the payment of dividends during 2017. Notwithstanding the draft nature of the draft SREP 2016, BMN intends to adhere to this restriction.

Any failure by BMN 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, which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 ("**RD 1012/2015**"), has implemented Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") into Spanish law, which could have a material adverse effect on the Group's business and operations.

In addition to the minimum capital requirements under CRD IV, the BRRD regime prescribes that banks shall hold a minimum level of own funds and eligible liabilities in relation to total liabilities and own funds (known as "**MREL**"). 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). 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. The MREL requirement came into force on 1 January 2016. The EBA has recognised the impact which this requirement may have on banks' funding structures and costs.

The European Commission has adopted the Commission Delegated Regulation (EU) 2016/1450 with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for MREL (the "**EC Delegated Regulation on MREL calibration**"). The EC Delegated Regulation on MREL calibration is intended to provide resolution authorities with detailed guidance for setting MREL requirements for banks, while enabling authorities to exercise discretion on the minimum level and composition of MREL as appropriate for each bank. According to the EC Delegated Regulation on MREL calibration, a transitional period made as short as possible is expected. 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 of the institution. As at the date of this Prospectus, this level has not yet been communicated to BMN, however it may have a material adverse effect on it.

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 requires a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of RWAs 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 exposures as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Although BMN has not been classified as a G-SIB by the FSB and, thus, in principle, TLAC should not apply to it, it cannot be disregarded that in future TLAC requirements may apply to BMN in addition to other capital requirements either because 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 or otherwise (and as per the BRRD, any legislative proposal from the European Commission will have to

take into account the need of consistency between MREL and other international standards such as TLAC).

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

In light of the above, new and more demanding additional capital requirements may be applied in the future.

In addition, in December 2010 the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**") metrics, seeking to (i) promote the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (ii) promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The Basel III liquidity standards are being implemented within the EU through the CRD IV. The LCR has been subsequently revised by the Basel Committee in January 2013 and in January 2014 the Basel Committee published amendments to the LCR and technical revisions to the NSFR ratio, confirming that it remains the intention that the latter ratio, including any future revisions, will become a minimum standard by 1 January 2018. In addition to the above, at its meeting of 12 January 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from 1 January 2015. There will be a mandatory minimum capital requirement on 1 January 2018, with an initial minimum leverage ratio of 3 per cent. that can be raised after calibration, if European authorities so decide. BMN's LCR was 340 per cent. and 439 per cent. in 30 June 2016 and 31 December 2015, respectively, compared with the minimum requirement of 70 per cent. in 2016. BMN's NSFR was 102 per cent. and 105 per cent. in 30 June 2016 and 31 December 2015, respectively.

In addition, the Basel Committee has published in April 2016 a consultative document proposing to review the framework of the leverage ratio. The review would cover the exposure measure (which would follow the standard method used for calculating counterparty risk weightings) and the modification of credit conversion factors to off-balance sheet transactions with the standard method used for credit risk. Although, it is not possible to quantify the impact of this possible change on the calculation methodology, it is predicted that there will be an increase in the effect of exposure on leverage ratios which would reduce the leverage ratio. There is therefore uncertainty with respect to the definitive definition and calibration of the leverage ratio which are expected to be set out further in 2017.

The Basel Committee changes and other future changes to capital adequacy and loss absorbency and liquidity requirements (including increases to such requirements or changes in the consideration of certain items for capital adequacy purposes, such as deferred tax assets ("**DTAs**") —as at 30 June 2016 the amount of DTAs recognised by BMN amounted to approximately €2,248 million, of which €2,041 million do not rely on future profitability, arise from temporary differences and meet the conditions contained in the applicable regulation, these DTAs are eligible to be converted into credits enforceable against the Spanish Tax Administration and are fully guaranteed by the Kingdom of Spain) in the EU and Spain may require BMN to issue Tier 1 capital (including CET1), or other Tier 2 capital and certain loss absorbing debt securities, and may result in existing Tier 1 and Tier 2 securities issued by BMN ceasing to count towards BMN's regulatory capital. The requirement to increase BMN's levels of CET1, Tier 1 capital and Tier 2 capital, or loss absorbing debt securities, which could be mandated by BMN's regulators, could have a number of negative consequences for BMN and BMN's investors. If BMN is unable to raise the requisite amount of Tier 1 and Tier 2 capital, or loss absorbing debt securities BMN may be required to reduce further the amount of BMN's RWAs or total assets and engage in the disposal of core and other noncore businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to BMN.

Building on changes made to requirements in relation to the quality and aggregate quantity of capital that banks must hold, the Basel Committee and other agencies are increasingly focused on changes that will increase, or recalibrate, measures of RWAs as the key measure of the different categories of risk in the

denominator of the risk-based capital ratio. While they are at different stages of maturity, a number of initiatives across risk types and business lines are in progress that might impact RWAs at their conclusion. While the quantum of impacts is uncertain owing to lack of clarity of definition of the changes and the timing of their introduction, the likelihood of an impact resulting from each initiative is high and such impacts could result in higher levels of RWAs.

There has been a recent review of the regulatory framework of Basel III. In this regard, the Basel Committee is carrying out a comprehensive analysis of the RWAs, being the denominator of the solvency rating, with the aim to reduce the complexity of its method of calculation (in particular, in the case of entities that use internal models), to enable better comparability across financial entities, to limit the calculation's dependence on ratings and to avoid regulatory arbitrage. The new global regulation is estimated to be completed by the end of 2016 and it is expected that it will enter into force in 2019. In particular, the regulatory initiatives that the Basel Committee is developing in relation to the RWAs include the following: (i) a review of the beneficial regulatory treatment applied to exposures to sovereign risk; (ii) a review of the standardised approach to credit risk; (iii) design of a capital floor framework based on a standardised approach; (iv) a review of the market risk framework, implementing a method of calculation that is more sensitive to the risk and which improves comparability across entities; and (v) developing a new calculation methodology for operational risk requirements. The modification of the prudential treatment of the RWAs could have a significant impact on the capital requirements and on BMN's solvency rating calculation that currently cannot be accurately quantified.

There can be no assurance that the implementation of these new requirements, standards or recommendations will not adversely affect BMN's ability to make discretionary payments as set out above in the future, or require BMN 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 BMN's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect BMN's return on equity and other financial performance indicators.

Fiscal and banking union

The project of achieving an European banking union was launched in the summer of 2012. Its main goal was 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 is expected to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the largest European banks (including BMN), on 4 November 2014.

The SSM has represented a significant change in the approach to bank supervision at a European and global level, even if it has not resulted nor is it expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including BMN, and indirect supervision of around 3,500 financial institutions. The SSM is working to establish a new supervisory culture importing the best practices from the 19 national supervisory authorities that form part of the SSM. Several steps have already been taken in this regard such as the publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. However, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

Certain national options and discretions that were so far exercised by national competent authorities will be exercised by the SSM in a largely harmonised manner throughout the European banking union. In this respect, on 14 March 2016 the ECB adopted Regulation (EU) 2016/445 on the exercise of options and discretions. Depending on the manner in which these options / discretions were so far exercised by the national competent authorities and on the manner in which the SSM will exercise them in the future, additional / lower capital requirements may result.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. Regulation (EU)

No. 806/2014 of the European Parliament and the Council of the European Union (the "**SRM Regulation**"), which took legal effect from 1 January 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The SRM Regulation complements the SSM which established a centralised power of resolution entrusted to the single resolution board (the "**SRB**") and to the national resolution authorities as an integral part of the process of harmonisation of the resolution regime provided for by the BRRD.

The new SRB started operating from 1 January 2015 and fully assumed its resolution powers on 1 January 2016. From that date the Single Resolution Fund has also been in place, funded by contributions from European banks in accordance with the methodology approved by the Council of the EU. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after 8 per cent. total liabilities and own funds (or 20 per cent. RWAs in certain cases) have already been bailed-in (in line with the BRRD).

BRRD was published in the Official Journal of the EU on 12 June 2014 and was required to be implemented on or before 1 January 2015, although the bail-in tool was not to apply until 1 January 2016. BRRD was implemented in Spain through Law 11/2015 and RD 1012/2015, see "*—Resolution and recovery of credit institutions*" below. Similarly, on 3 July 2014 Directive 2014/49/EU on deposit guarantee schemes (the "**DGSD**") came into force and Member States had one year from this date to implement it into national law. In Spain, the DGSD was also implemented through Law 11/2015 and RD 1012/2015. Additionally, on 24 November 2015, the European Commission has proposed a draft regulation to amend Regulation (EU) 806/2014, in order to establish a European deposit insurance scheme for bank deposits, see "*—Contributions for assisting in the future recovery and resolution of the Spanish banking sector*" below.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as BMN's main supervisory authority may have a material impact on the BMN's business, financial condition and results of operations.

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, as well as complex securitisations and risky derivatives.

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

Resolution and recovery of credit institutions

The BRRD (which has been implemented in Spain through Law 11/2015 and RD 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 the 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) RD 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).

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors.

Contributions for assisting in the future recovery and resolution of the Spanish banking sector

The DGSD came into force on 3 July 2014 following publication in the Official Journal of the EU and Member States had one year from this date to implement it into national law. In Spain, the DGSD was implemented through Law 11/2015 and RD 1012/2015, which established a requirement for Spanish credit institutions, including BMN, to make at least an annual ordinary contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) (the "**National Resolution Fund**") payable on request of the FROB in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos de Entidades de Crédito*) (the "**Deposit Guarantee Fund**") by member institutions. The total amount of contributions to be made to the FROB by all Spanish banking entities must equal, at least, 1 per cent. of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund by 31 December 2024. The contribution will be adjusted to the risk profile of each institution in accordance with the criteria set out in RD 1012/2015. The FROB may, in addition, collect extraordinary contributions.

Furthermore, Law 11/2015 has also established an additional charge (*tasa*) which shall be used to further fund the activities of the FROB, in its capacity as a resolution authority, which charge shall equal 2.5 per cent. of the above annual ordinary contribution to be made to the National Resolution Fund.

In addition, BMN may need to make contributions to the Single Resolution Fund, once the National Resolution Fund has been integrated into it, and will have to pay supervisory fees to the SSM.

Any levies, taxes or funding requirements imposed on BMN pursuant to the foregoing or otherwise in any of the jurisdictions where it operates could have a material adverse effect on BMN's business, financial condition and results of operations.

Increased taxation and other burdens imposed on the financial sector

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common system of financial transaction taxes ("**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, 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. However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear.

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

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

BMN is exposed to risk of loss from legal and regulatory claims.

BMN operates in a highly regulated industry and is and in the future may be subject to claims of non-compliance and lawsuits by government and regulatory authorities, including tax authorities, as well as various claims, disputes, legal proceedings or actions with other third parties. These types of claims and proceedings may divert management's time, attention and resources and expose BMN, as the case may be, to monetary damages, direct or indirect costs or financial loss, civil and criminal penalties, loss of licenses or authorisations, or loss of reputation, as well as the potential for regulatory restrictions on BMN's businesses, all of which could have a material adverse effect on BMN's business, financial condition and results of operations.

Moreover, as a result of BMN's integration, BMN took on all rights, obligations, responsibilities and charges of the demerged business of the Cajas and, therefore, assumed any obligations that may arise with respect to them, including with respect to tax inspections and other legal proceedings relating to their past activities.

BMN is subject to continuing uncertainties regarding the validity of interest rate floor clauses.

Interest rate floor clauses are clauses under which the borrower accepts a minimum interest rate to pay to the lender under the terms of its loan, regardless of the applicable reference interest rate. BMN has included such interest rate floor clauses in certain specific assets transactions with its customers.

In 2013 the Supreme Court of Spain ruled that interest rate floor clauses (which effectively set a minimum interest rate by imposing a limit on how far mortgage interest rates can fall in tandem with a benchmark rate) of certain Spanish banks (but not BMN) were null and void because the clauses were not clearly and transparently explained. A separate case was brought before the courts of Madrid by the consumer group ADICAE on behalf of a group of holders of interest rate floor mortgages at a number of Spanish banks (including BMN).

On 7 April 2016, the Mercantile Court in Madrid ruled in the ADICAE proceedings that interest rate floor clauses contained within the general conditions of consumer mortgage contracts were void due to lack of transparency. The affected banks (including BMN) were thus obliged to (i) remove such clauses from all such contracts, (ii) stop using such clauses unless clearly and transparently explained to the relevant consumer, and (iii) reimburse affected customers for amounts that they overpaid as a result of such

clauses, together with any interest in accordance with applicable law, from 9 May 2013 (the date of publication of the Supreme Court judgment in the original proceedings).

On 13 July 2016 the European Court of Justice's Advocate General issued a written, non-binding opinion in which he concluded that Spanish banks should not be forced to reimburse consumers for years of excess mortgage charges imposed before the 2013 ruling by the Spanish Supreme Court. A final ruling of the European Court of Justice on this question is expected to be given before the end of 2016.

If, despite the abovementioned ruling in the ADICAE proceedings and the opinion of the Advocate General, the European Court of Justice concludes that the banks should each reimburse affected consumers retroactive to the starting date of the relevant loan (rather than to the date of the Supreme Court judgment), this could materially affect the Issuer's business, financial condition and results of operations. Based on the outstanding balance at 30 June 2016 of the Issuer's mortgage loans with interest rate floor clauses, the Issuer estimates that in such a scenario it could be required to make an aggregate reimbursement of approximately €45 million. If, however, the European Court of Justice concurs with the opinion of the Advocate General, and reimbursement is retroactive to 9 May 2013 only, then the Issuer estimates that the total amount of any such reimbursement required to be paid by it would amount to approximately €28 million. As at 30 June 2016, the Issuer had taken provisions in the amount of €34.7 million to prepare for this contingency. The expected impact during 2016 on net interest income resulting from the removal of and disapplication of interest rate floor clauses affected by the aforementioned judgments is estimated at €0.69 million per month.

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

BMN is subject to rules and regulations regarding money laundering and the financing of terrorism, which have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. 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. BMN cannot guarantee that its anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on business, financial condition, results of operations and prospects.

Risks Related to Current Macroeconomic Conditions

BMN's overall business is highly concentrated in Spain

BMN primarily conducts its business in the Mediterranean regions of Spain. Accordingly, the Issuer's loan portfolio is particularly exposed to any deterioration in the Spanish economy. After rapid economic growth until 2007, Spanish gross domestic product ("GDP") contracted by 3.7 per cent. and 0.3 per cent. in 2009 and 2010, respectively, grew by 0.4 per cent. in 2011, contracted by 1.6 per cent. and 1.2 per cent. in 2012 and 2013, respectively, and grew by 1.4 per cent. in 2014. In 2015 the Spanish GDP grew by 3.2 per cent., a rate not seen since 2007, before the crisis struck. The effects of the financial crisis were particularly pronounced in Spain given the country's heightened need for foreign financing as reflected by its high current account and public deficit. The crisis also highlighted the Spanish economy's sensitivity to economic conditions in the rest of the euro area, which is the primary market for Spanish goods and services exports. In addition, domestic demand was hampered by factors such as the restrictive character of Spain's national fiscal and public spending policies and the deterioration of the labour market. While the Spanish GDP has recorded two consecutive years of growth since the third quarter of 2014 and is estimated to increase by 2.6 per cent. in 2016 (source: European Commission), if such growth prospects do not materialise or if the Spanish market should weaken again, given the concentration of BMN's loan portfolio in Spain, it could have a material adverse effect on BMN's business, financial condition, results of operations and prospects.

Negative macroeconomic conditions and the fiscal consolidation and reform efforts in Spain, along with global market turmoil, including the EU credit crisis and economic recession, significantly affected the behaviour of BMN's customers and, by extension, the demand for, and supply of, BMN's products and services. Higher unemployment rates, reduced corporate profitability and increased insolvency rates have reduced customers' ability to repay loans. Consequently, BMN's NPLs ratio (which is the ratio of NPLs

over its total loans) increased during the economic downturn and, despite recent improvement, may continue to increase, reflecting a deterioration of BMN's asset quality.

Furthermore, the economy of the Mediterranean regions of Spain depends to a great extent on domestic and international tourism, which is highly dependent on macroeconomic factors, including the exchange rate where tourists visit from non-euro economies. The unemployment rates of some of the regions where BMN operates are among the highest in the EU, including Andalusia (where the unemployment rate was 29.8 per cent. in 2015 (source: *Instituto Nacional de Estadística (Spanish Statistical Office) ("INE")*)) and Murcia (where the unemployment rate was 23.5 per cent. in 2015 (source: INE)).

Investor confidence may also fall due to uncertainties arising from the political uncertainties in Spain, which may slow the pace of reform or result in changes to laws, regulations and policies. This applies not only to specific Spanish regions such as Catalonia but also to the central Spanish government, where, after a delay in the formation of a new government following the December 2015 and June 2016 Spanish general elections, the failure of the minority government which has just been formed to effectively operate, or a further repeat of the general elections, could impact economic growth in Spain.

The failure of Spain to continue to grow, the deterioration in the solvency of Spanish or international banks or certain other economic changes in the Euro zone could have a negative impact on the Spanish economy. Given the concentration of BMN's activities in Spain, any such event could have a direct negative impact on the value of BMN's securities portfolio, in particular BMN's portfolio of Spanish public debt (as of 30 June 2016, BMN held €4,886 million in Spanish public debt) and the quality of its loan portfolio; have a significant adverse effect on BMN's capacity to raise and generate capital and comply with minimum regulatory capital requirements; significantly restrict BMN's ability to obtain liquidity; or otherwise materially adversely affect BMN's business, financial condition and results of operations.

BMN is exposed to sovereign debt risk.

The recent international financial crisis has revealed structural imbalances in governmental spending in multiple jurisdictions across the world, including Greece, Ireland, Portugal, Spain, Italy and Cyprus. Although doubts remain about the solvency of certain countries (in particular, Greece, which continues to experience a debt crisis), actions taken by countries to stabilise their economies and reduce debt and deficits have reduced the risk associated with the sovereign debt of many countries.

As of 30 June 2016, BMN's investment securities (not including equity investments and shares and other variable income securities) were carried on its balance sheet at a book value of €1,292 million, representing 28 per cent. of its total assets. As of that date, €4,920 million, or 43.57 per cent. of such investment securities, consisted of securities issued by sovereign entities (43.27 per cent. by government, autonomous community governments, municipal councils or government agencies in Spain and 0.30 per cent. by such entities in Portugal).

Any decline in Spain's credit ratings could adversely affect the value of Spain's, Spanish autonomous communities' and other Spanish issuers' respective securities held by BMN in its various portfolios or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects (since BMN's activities are concentrated in Spain and its principal shareholder is the FROB). Any such decline would also likely increase the cost of financing the Spanish public debt, which could result in increased taxation, lower government spending and, consequently, an adverse effect on Spanish economic conditions, sovereign default risk and the value of Spanish government bonds. Any permanent reduction in the value of Spanish government bonds would be reflected in BMN's capital position and would adversely affect its ability to access liquidity, raise capital and meet minimum regulatory capital requirements. Furthermore, the counterparties to many of BMN'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 BMN. A downgrade could also adversely affect the extent to which BMN can use the Spanish government bonds BMN holds as collateral for ECB refinancing and, indirectly, for refinancing with other securities. As such, a downgrade or series of downgrades in the sovereign rating of Spain and any resulting reduction in the value of Spanish government bonds may have a material adverse effect on BMN's business, capital position, financial condition, results of operations and prospects. Furthermore, any downgrades of Spain's ratings may increase the risk of a downgrade of BMN's credit rating by the rating agency.

Risks Relating to BMN's Business

BMN faces increasing consolidation of the competition in its business lines.

The markets in which BMN operates are highly competitive. The Spanish banking sector has experienced a phase of particularly fierce competition among both local and foreign financial institutions, 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, particularly 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. There has also been significant consolidation in the Spanish banking industry which has created larger and stronger banks with which BMN 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 BMN's competitors, including well-established domestic banks in each of the regional Spanish markets in which BMN operates, as well as international banks with operations in regions in which BMN operates, are now larger institutions with improved economies of scale. Moreover, they may have better relationships with the clients that comprise BMN's target customer bases, may offer a broader or more desirable range of products and services (including better pricing for deposits and loans) and may have greater resources and better local market knowledge. If BMN fails to implement strategies to maintain or enhance BMN's competitive position relative to these improved banking institutions, BMN's market share may deteriorate and this may have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

On 28 September 2016 the FROB notified BMN of its resolution to take the necessary measures to analyse the reorganisation of its investee credit institutions through a merger between Bankia, S.A. (in which the FROB holds a stake of approximately 65 per cent. of its share capital) and BMN (in which the FROB holds a 65 per cent. stake), also exploring other possible alternatives. A merger between Bankia, S.A. and BMN or any other similar transaction could cause a change in the Group's business strategy and in the structure and membership of the Issuer's Board of Directors. Although the impact that these measures could have is currently uncertain, they could negatively affect the Group's business, financial condition and results of operations. The impact that these measures could have on the Notes is also uncertain. If any order is made by any competent court, or a resolution is passed, for the winding up or dissolution of the Issuer for the purpose of a merger, and such merger is a Permitted Reorganisation (as defined in the Conditions), such event would not constitute an Event of Default under Condition 9 (*Events of Default*). A merger would constitute a Permitted Reorganisation (i) if it is approved by an Extraordinary Resolution at a meeting of Noteholders; or (ii) where the entity resulting from any such merger is (A) a financial institution (*entidad de crédito*) under article 1 of Law 10/2014 and (B) has a rating for long-term senior debt assigned by Standard & Poor's Rating Services, Moody's Investor Services, Fitch Ratings Ltd or DBRS Ratings Limited equivalent to or higher than the rating for long-term senior debt of the Issuer immediately prior to such reconstruction, merger or amalgamation.

The economic environment in Spain generates significant competition on the basis of interest rates among lending institutions in the demand for all types of deposits. Increasing competitive pressures could cause BMN to lose customer deposits to BMN's competitors or force BMN to offer interest rates on deposits that are higher than the rates received on BMN's loan products. As a result, BMN's net interest margin would be adversely affected, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Additionally, some of BMN's competitors may be better able to respond to the changing demands of its target consumers. In particular, BMN faces increased pressure to meet rising customer demands to provide more tailor-made and simple banking products. There is no guarantee that BMN'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 BMN's ability to successfully compete in its primary markets.

Further, the number of banking transactions conducted over the internet in the markets in which BMN operates has grown in recent years and is expected to grow further, and the Issuer may be unable to compete with other banks that offer more extensive online services to their customers than it does. BMN 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) and car dealers. In addition, BMN faces competition from shadow banking entities that operate outside the regulated banking system. Furthermore, "**crowdfunding**" and other social media developments in finance are expected to become more popular as technology further continues to connect society. BMN cannot be certain that this competition will not adversely affect its competitive position.

Failure to maintain the strength of BMN's reputation and its brand may adversely affect its business.

BMN believes its success depends in part on its well-established and widely recognised brand along with its favourable reputation. If BMN fails to promote and maintain its brand, or if BMN incurs excessive expenses in relation to this, its business and financial condition could be materially and adversely affected. Harm to its reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behaviour, failure to properly identify and manage potential conflicts of interest and the activities of customers, counterparties or strategic alliance partners, including the misconduct or fraudulent actions of such customers, counterparties or partners. Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect BMN's reputation.

BMN relies on recruiting, retaining and developing appropriate senior management and skilled personnel.

BMN's continued success depends in part on the continued service of key members of its management team as well as key managers of businesses BMN acquires. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of BMN's strategy. The financial industry has and may continue to experience more stringent regulation on employee compensation, which could have an adverse effect on BMN's ability to hire or retain the most qualified employees. If BMN or one of BMN's business units or other functions fails to staff BMN's operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, or fail to attract and appropriately train, motivate and retain qualified professionals, its business, financial condition and results of operations may be adversely affected.

BMN's insurance coverage may not adequately cover losses resulting from the risks for which they are insured.

BMN maintains customary insurance policies for its operations, including insurance for property, its money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes, theft and fraudulent use of credit cards and central processing and ATM errors. Due to the nature of BMN's operations and the nature of the risks that BMN faces, there can be no assurance that the coverage that BMN maintains is adequate to cover the losses for which BMN believes it is insured. If BMN was to suffer a significant loss for which BMN is not insured, such loss could have a material adverse effect on BMN's business, financial condition, results of operations and prospects.

BMN's economic hedging may not prevent losses.

If any of the variety of instruments and strategies that BMN uses to economically hedge its exposure to market risk is not effective, BMN may incur losses which could have a material adverse effect on its business, financial condition, results of operations and prospects. Many of its strategies are based on historical trading patterns and correlations. Unexpected market developments may therefore adversely affect the effectiveness of BMN's hedging strategies. Moreover, BMN does not economically hedge all of its risk exposure in all market environments or against all types of risk.

Weaknesses or failures in BMN's internal processes, systems and security could materially adversely affect BMN's results of operations, financial condition or prospects, and could result in reputational damage.

Operational risks, through inadequate or failed internal processes or systems (including financial reporting processes, risk monitoring and mitigating processes, information technology systems ("IT") (including problems deriving from the harmonisation of systems following material acquisitions) and management policies, procedures and strategies) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out against BMN, are present in its business. BMN's business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. If existing or potential customers believe BMN's risk management or internal processes, systems or security are inadequate, they could take their business elsewhere. Any weakness in these internal processes, systems or security could have an adverse effect on the normal operation of BMN's business, on the ability to deliver appropriate customer outcomes, on BMN's financial condition, prospects or results or on the reporting of such results. IT systems need regular upgrading, and BMN may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned.

In addition, any breach in security of BMN's systems could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure for BMN (including fines from bank regulators if its systems fail to enable BMN to comply with applicable banking or reporting regulations). Although BMN devotes significant resources to maintain and regularly update its processes and systems that are designed to protect the security and provide high level service availability of its systems, software, networks and other technology assets, there is no assurance that all of its security measures will provide absolute security. Any damage to BMN's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in BMN's systems, processes or security could have a material adverse effect on BMN's business, financial condition, results of operations or prospects.

Risks relating to the Notes

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 or any applicable supplement;
- (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.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions

should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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 Noteholders under, and the value of, any Notes

As described in "*Legislation designed to strengthen the Spanish financial sector and regulate the activities of European banks generally may materially impact BMN — Resolution and recovery of credit institutions*", the implementation of BRRD in Spain through Law 11/2015 and RD 1012/2015 has provided the Relevant Spanish Resolution Authority with a set of tools intended to intervene sufficiently early and quickly in an unsound or failing 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. These tools include the Spanish Bail-in Power.

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).

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 may impact the rights of creditors. Pursuant to Law 11/2015, Noteholders 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 Noteholders 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 Noteholders 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 Noteholders, 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. 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 BMN's control. In addition, as the Relevant Spanish Resolution Authority will retain an element of discretion, Noteholders 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 Noteholders.

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 Noteholder under, and the value of a Noteholder's investment in, the Notes.

Noteholders 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

The Issuer may be subject to a procedure of early intervention or resolution pursuant to the BRRD as implemented in Spain through Law 11/2015 and RD 1012/2015 if the Issuer is in breach (or due, among other things, to a rapidly deteriorating financial condition, it is likely in the near future to be in breach) of applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls or if the conditions for resolution referred to above are met (see "*Legislation designed to strengthen the Spanish financial sector and regulate the activities of European banks generally may materially impact BMN — Resolution and recovery of credit institutions*").

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 Noteholder 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 as implemented in Spain through Law 11/2015 and RD 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 "*Legislation designed to strengthen the Spanish financial sector and regulate the activities of European banks generally may materially impact BMN — Resolution and recovery of credit institutions*"). 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 RD 1012/2015. There can be no assurance that the taking of any such action would not adversely affect the rights of Noteholders, 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.

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

The Issuer's obligations under the Notes will be unsecured and subordinated and will rank junior to all unsubordinated obligations of BMN. 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 BMN 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 (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 relating to Early Intervention 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 Noteholders under, and the value of, any Notes*".

In the event of insolvency, pursuant to article 158 of the Insolvency Law, after payment in full of unsubordinated claims but before distributions to shareholders as a consequence of their condition of equity holders, BMN will meet subordinated payment claims in the order provided under article 92 of the Insolvency Law 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 as provided under the Insolvency Law; (vi) claims resulting from a claw-back action estimated by the relevant Court in favour of whom the ruling has declared a party in bad faith in the clawed-back act as a consequence of the insolvency claw-back action; and (vii) claims arising from the contracts with reciprocal obligations referred to in articles 61, 62, 68 and 69 of the Insolvency Law, when the Court finds, following the report by the insolvency administrators, that the creditor has repeatedly hindered fulfilment of the contract to the detriment of the insolvency interests.

Additional Provision 14.2^o of Law 11/2015 established a change in the ranking of claims under Article 92.2 (contractually subordinated debts) 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.

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

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

The terms and conditions of the Notes place no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes (including contractually subordinated debts), 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 Noteholders upon liquidation of the Issuer.

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

Holders of the Notes in general will not have any rights under the terms and 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 terms and conditions of the Notes 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 Noteholders.

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

Subject as provided in the Conditions, in particular to the approval of the Regulator and the other conditions as described in Conditions 6.3 (*Redemption for tax reasons*) and 6.4 (*Redemption at the option of the Issuer (Capital Event)*), the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at their outstanding principal amount plus accrued and unpaid interest, upon the occurrence of a Capital Event or for tax reasons. In addition, the Issuer may at its option (subject to prior approval of the Regulator), redeem all, but not some only, of the Notes at their outstanding principal amount plus accrued and unpaid interest on the correspondent date fixed for redemption.

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or 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, Noteholders 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 Issuer at the option of the Issuer is subject to the Regulator's permission and such permission will be given only if either of the following conditions is met:

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

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).

Risk relating to the change in the rate of interest

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

The terms of the Notes 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 its subsidiaries 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 Conditions of the Notes contain provisions which may permit their modification without the consent of all investors

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

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

The Conditions (except for Condition 2.3 and 3, which are construed in accordance with Spanish law in effect as at the date of this Prospectus) 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 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.

Risks relating to the Spanish withholding tax regime

Article 44 of Royal Decree 1065/2007, of 27 July 2007, as amended by Royal Decree 1145/2011, of 29 July 2011 ("**Royal Decree 1065/2007**"), sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014 of 26 June. The procedures apply to interest deriving

from preferred securities (*participaciones preferentes*) and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

According to the plain wording of section 4 of article 44 of Royal Decree 1065/2007, of 27 July, income derived from securities originally registered with Iberclear will be paid by the Issuer net of Spanish withholding tax (currently, at a rate of 19 per cent.) if the recipient of the payment is an individual resident in Spain for tax purposes and subject to Spanish Individual Income Tax ("**IIT**"). The Issuer will not pay any additional amounts in respect of any such withholding tax.

On the other hand, interest payments made by the Issuer in respect of the Notes for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish Corporate Income Tax taxpayers, will not be subject to Spanish withholding tax, provided that the Iberclear Members that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Issuer, in a timely manner, with a duly executed and completed statement (a "**Payment Statement**"), in accordance with section 4 of article 44 of Royal Decree 1065/2007, with the following information:

- (a) Identification of the Notes.
- (b) Date of payment.
- (c) Total amount of the income paid by the Issuer.
- (d) Amount of the income corresponding to individuals residents in Spain that are IIT taxpayers.
- (e) Amount of the income that must be paid on a gross basis.

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income made by the Issuer under the Notes, such payment will be made net of Spanish withholding tax, currently at the rate of 19 per cent.

Should this occur, affected beneficial owners would receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish Non-Resident Income Tax Law.

Prospective investors should note that the Issuer does not accept any responsibility relating to the lack of delivery of a duly executed and completed Payment Statement by Iberclear Members in connection with each payment of income under the Notes. Accordingly, the Issuer will not be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because the Payment Statement was not duly delivered to the Issuer. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding tax.

Holders must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Notes. The Issuer does not assume any responsibility in this regard.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. Although application has been made for the Notes to be admitted to listing on AIAF, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for 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.

The trading market for debt securities may be volatile and may be adversely impacted by many events

If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of BMN. The market for debt securities issued by banks is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in other Western and other industrialized countries. There can be no assurance that events in Spain, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Notes, this will adversely affect the value of the Notes.

If an investor holds Notes which are not denominated in the investor's home currency, that investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

BMN will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro 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 euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal 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 or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Clearing and settlement

The Notes will be registered with Iberclear. Consequently, no physical Notes will be issued. Clearing and settlement relating to the Notes, as well as payment of distributions and redemption or adjustment of principal amounts, will be performed within Iberclear's account-based system. Noteholders are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Notes will be evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as being a holder of the Notes shall be (except as otherwise required by Spanish law) considered the Noteholder of the principal amount of the Notes recorded therein.

The Issuer will discharge its payment obligation under the Conditions by making payments through Iberclear. Noteholders must rely on the procedures of Iberclear and its participants to receive payments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, Noteholders of the Notes according to book entries and registries as described in the previous paragraph.

A summary of clearance and settlement procedures applicable to book-entry Notes in Spain is contained under "*Summary of clearance and settlement procedures applicable to book-entry Notes*".

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

BMN has been rated BB with stable outlook by Fitch and the notes have been rated "BB-" by Fitch. In addition, one or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes (including on an unsolicited basis). The ratings may not reflect the potential impact of all the risks related to structure, the market, the additional factors discussed above and other factors that may affect

the value of BMN or the Notes. Further they do not address the price, if any, at which the Notes may be resold prior to maturity (which may be substantially less than the original offering prices of the Notes). However, real or anticipated changes in the Issuer's credit rating may increase the cost of and decrease its ability to finance itself in the capital markets, secured funding markets, interbank markets, breach certain of its agreements or trigger additional obligations under such agreements, harm BMN's reputation or otherwise materially adversely affect its business, financial condition and results of operations. Moreover, actual or anticipated decline in BMN's credit ratings will generally affect the market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

The United Kingdom's proposed exit from the EU

On 23 June 2016, the United Kingdom held a referendum to decide on the United Kingdom's membership of the EU. The result of the vote was to leave the EU. There are a number of uncertainties in connection with the future of the United Kingdom and its relationship with the EU. The negotiation of the United Kingdom's exit terms is likely to take a number of years. Until the terms and timing of the United Kingdom's exit from the EU are clearer, it is not possible to determine the impact that the referendum, the United Kingdom's departure from the EU and/or any related matters may have on the business of the Issuer. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

TERMS AND CONDITIONS OF THE NOTES

The issue of the Euro 175,000,000 Fixed Rate Reset Subordinated Notes due 16 November 2026 (the "**Notes**", which expression shall, unless otherwise indicated, include any further notes issued pursuant to Condition 12 (*Further Issues*) and consolidated and forming a single series with the Notes) was (save in respect of any such further notes to be issued pursuant to Condition 12 (*Further Issues*)) authorised by a resolution of the board of directors of Banco Mare Nostrum S.A. (the "**Issuer**"), passed on 17 October 2016. Cecabank, S.A. will act as paying agent in relation to the Notes (in such capacity, the "**Agent**").

The Notes have the benefit of an Agency Agreement, which comprises of an agency framework agreement dated 20 January 2014 (the "**Agency Framework Agreement**") and an Annex to the Agency Framework Agreement dated 16 November 2016 (the "**Annex**", and together with the Agency Framework Agreement, as any of them amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer and the Agent.

The Notes have the benefit of a deed of covenant dated 16 November 2016 (the "**Deed of Covenant**"). In the Deed of Covenant, the Issuer has covenanted in favour of each Noteholder (as defined below) that it will duly perform and comply with the obligations expressed to be undertaken by it in these Conditions. Copies of the Deed of Covenant are available for inspection during normal business hours at the specified office of the Issuer.

1. DEFINITIONS

In these Conditions (except where otherwise defined):

"**5-year Mid-Swap Rate**" means:

- (a) the rate for euro swaps with a term of five years which appears on the Screen Page as of 11:00 a.m. (Brussels time) on the Reference Rate Determination Date; or
- (b) if the 5-year Mid-Swap Rate does not appear on the Screen Page at such time on the Reference Rate Determination Date, the Reset Reference Bank Rate on the Reference Rate Determination Date.

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

- (a) has a term of five years commencing on the Reset Date;
- (b) 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 swap market; and
- (c) has a floating leg based on 6-month EURIBOR (calculated on an Actual/360 day count basis).

"**Additional Tier 1 Capital**" means Additional Tier 1 capital (*capital de nivel 1 adicional*) as provided under Applicable Banking Regulations.

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation of the Issuer constituting an Additional Tier 1 instrument (*instrumento de capital de nivel 1 adicional*) in accordance with Applicable Banking Regulations.

"**AIAF**" means the Spanish AIAF Fixed Income Securities Market (*AIAF Mercado de Renta Fija*).

"**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 resolution authority.

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the 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 relating to capital adequacy, resolution and/or solvency then in effect of the Regulator, in each case to the extent then in effect in Spain (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).

"**BRRD**" means Directive 2014/59/EU of 15 May 2014 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 RD 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 or Sunday) which is both a day on which banks and foreign exchange markets are open for business in the place of the specified office of the Agent and a TARGET Settlement Day.

A "**Capital Event**" is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Applicable Banking Regulations that was not reasonably foreseeable at the time of the Notes issuance and that would be likely to result in their exclusion in whole or in part in the Tier 2 Capital of the Issuer and/or Group or reclassification as a lower quality form of the Issuer's own funds and that the Regulator considers to be sufficiently certain.

"**CNMV**" means the Spanish securities market commission (*Comisión Nacional del Mercado de Valores*).

"**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 26th June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC or such other directive as may come into effect in place thereof.

"**CRD IV Implementing Measures**" means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a stand-alone 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 stand-alone or consolidated basis) including, without limitation, Law 10/2014, as amended from time to time, RD 84/2015, as amended from time to time, and any other regulation, circular or guidelines implementing CRD IV.

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

"**Closing Date**" means 16 November 2016.

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**):

- (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in such Calculation Period divided by the actual number of days in such Regular Period; and
- (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the actual number of days in such Regular Period; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the actual number of days in such Regular Period.

"€" means euro.

"First Interest Payment Date" has the meaning given to such term in Condition 4.1 (*Interest and Other Calculations – Interest Rate*).

"Group" means the Issuer and its Subsidiaries.

"Initial Period" means the period from (and including) the Closing Date to (but excluding) the Reset Date.

"Initial Rate of Interest" means 9.000 per cent. per annum.

"Insolvency Law" means Law 22/2003, of 9 July, on Insolvency (*Ley Concursal*), as amended.

"Interest Payment Date" means 16 November in each year from (and including) the First Interest Payment Date.

"Interest Period" means the period beginning on (and including) the Closing Date and ending on (but excluding) the First Interest Payment and each subsequent period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date or the Maturity Date, as the case may be.

"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*).

"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*).

"Margin" means 8.960 per cent. per annum.

"Maturity Date" means 16 November 2026.

"Noteholder" has the meaning given in Condition 2.3 (*Title and transfer*).

"outstanding" means in relation to the Notes all the Notes issued other than:

- (a) those Notes which have been redeemed pursuant to Condition 6 (*Redemption and Purchase*);
- (b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid (and, where appropriate, notice to that effect has been given to the Noteholders under Condition 11 (*Notices*)) and remain available for payment of the relevant Notes;

- (c) those Notes which have been purchased pursuant to Condition 6 (*Redemption and Purchase*); and
- (d) those Notes in respect of which claims have become prescribed under Condition 8 (*Prescription*),

provided that for the purposes of attending and voting at any meeting of the Noteholders, those Notes (if any) which are for the time being held by any person (including but not limited to, the Issuer or any of its Subsidiaries) for the benefit of the Issuer or any of its Subsidiaries shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

"Permitted Reorganisation" means a reconstruction, merger or amalgamation (i) which has been approved by an Extraordinary Resolution at a meeting of Noteholders; 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 and (B) has a rating for long-term senior debt assigned by Standard & Poor's Rating Services, Moody's Investor Services, Fitch Ratings Ltd or DBRS Ratings Limited equivalent to or higher than the rating for long-term senior debt of the Issuer immediately prior to such reconstruction, merger or amalgamation.

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

"principal amount" shall have the meaning given to it in Condition 2.1 (*Form and Denomination*).

"Rate of Interest" means:

- (a) in the case of each Interest Period ending on or before the Reset Date, the Initial Rate of Interest; or
- (b) in the case of each Interest Period thereafter, the sum of (i) the Reference Rate in respect of the Reset Period and (ii) the Margin,

all as determined by the Agent (in conjunction with the Issuer, where applicable) in accordance with Condition 4 (*Interest and Other Calculations*).

"RD 1012/2015" means Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión, y por el que se modifica el Real Decreto 2606/1996, de 20 de diciembre, sobre fondos de garantía de depósitos de entidades de crédito*), as amended.

"RD 84/2015" means 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, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), as amended.

"Reference Rate" means, in relation to the Reset Period, the 5-year Mid-Swap Rate determined for the Reset Period by the Agent in accordance with Condition 4 (*"Interest and Other Calculations"*).

"Reference Rate Determination Date" means the day falling two TARGET Settlement Days prior to the Reset Date.

"Regular Period" means each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means 16 November in each year.

"Regulator" means the European Central Bank or such other or successor authority exercising primary bank supervisory authority, or any other entity or institution carrying out such duties on its/their behalf (including the Bank of Spain), in each case with respect to prudential matters in relation to the Issuer and/or the Group.

"Relevant Date" means 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 Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 11 (*Notices*).

"Relevant Jurisdiction" means Spain or any political subdivision or any authority thereof or therein having power to tax.

"Reset Date" means 16 November 2021.

"Reset Interest Amount" has the meaning given to such term in Condition 4.5 (*Interest and Other Calculations - Determination of Reference Rate in relation to Reset Period*).

"Reset Period" means the period from (and including) the Reset Date and ending on (but excluding) the Maturity Date.

"Reset Reference Bank Rate" means the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent at approximately 11:00 a.m. (Brussels time) on the Reference Rate Determination Date. The Agent will request the principal office of each of the Reset Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the Reset Reference Bank Rate will be the 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 arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be 0.04 per cent. per annum.

"Reset Reference Banks" means five leading swap dealers in the euro interbank market selected by the Agent in its discretion after consultation with the Issuer.

"Screen Page" means Reuters page "ICESWAP", under the heading "EURIBOR BASIS" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate.

"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 (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 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 Corporations Law" means the Royal Decree Legislative 1/2010, of 2 July, approving the consolidated text of the Spanish Corporations Law (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*), as amended.

"Subsidiary" means, in relation to an entity, any entity controlled by that first person entity where control is determined in accordance with section 3 of the Third Regulation of Circular 4/2004 of the Bank of Spain as amended (*Norma Tercera apartado tercero de la Circular 4/2004 de Banco de España*), whether any such entity is a financial institution or not.

"TARGET Settlement Day" means any day on which the TARGET System is open for the settlement of payments in euro.

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

"**Tier 2 Capital**" means Tier 2 capital (*capital de nivel 2*) as provided under the Applicable Banking Regulations.

"**Tier 2 Instrument**" means any contractually subordinated obligation of the Issuer constituting a Tier 2 instrument (*instrumentos de capital de nivel 2*) in accordance with the Applicable Banking Regulations.

2. **FORM, DENOMINATION AND TITLE**

2.1 **Form and denomination**

The Notes have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate nominal amount of €175,000,000. The denomination of each Note is equal to €100,000 (referred to as the "**principal amount**" of a Note).

2.2 **Registration, clearing and settlement**

The Notes have been registered with the *Spanish Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* ("**Iberclear**") as managing entity of the central registry of the Spanish clearance and settlement system (the "**Spanish Central Registry**").

Holders of a beneficial interest in the Notes who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Notes through bridge accounts maintained by each of Euroclear and Clearstream, Luxembourg with Iberclear. Iberclear manages the settlement and clearing of the Notes, notwithstanding the Issuer's commitment to assist, when appropriate, on the clearing and settlement of the Notes through Euroclear and Clearstream Luxembourg.

The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following ISIN to identify the Notes: ES0213056007. The Common Code for the Notes is 152100167.

2.3 **Title and transfer**

Title to the Notes is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the respective participating entities (*entidades participantes*) in Iberclear (the "**Iberclear Members**") as being a holder of the Notes shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Notes recorded therein. In these Conditions, "**Noteholder**" means the person in whose name such Note is for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book.

One or more certificates (each a "**Certificate**") attesting to the relevant Noteholder's holding of Notes in the relevant registry will be delivered by the relevant Iberclear Member or, where the Noteholder is itself an Iberclear Member or the Notes are held in a segregated account with Iberclear, by Iberclear (in each case, in accordance with the requirements of Spanish law and the relevant Iberclear Member's or, as the case may be, Iberclear's procedures) to such Noteholder upon such Noteholder's request.

The Notes are issued without any restrictions on their transferability. Consequently, the Notes may be transferred and title to the Notes may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable. Each Noteholder will be (except as otherwise required by Spanish law) treated as the legitimate owner (*titular legítimo*) of the relevant Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any

interest, or any writing on, or the theft or loss of, the Certificate issued in respect of it), and no person will be liable for so treating the Noteholder.

3. STATUS OF THE NOTES

- (a) The payment obligations of the Issuer under the Notes whether on account of principal, interest or otherwise, constitute direct, unconditional and subordinated obligations of the Issuer. In accordance with Article 92 of the Insolvency Law and 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 payment obligations of the Issuer under the Notes in respect of principal (unless they qualify as subordinated claims pursuant to Articles 92.4° to 92.7° of the Insolvency Law), will rank, for so long as the obligations of the Issuer in respect of the Notes constitute a Tier 2 Instrument of the Issuer:
- (i) **senior to** (i) any claims for principal in respect of contractually subordinated obligations of the Issuer qualifying as Additional Tier 1 instruments; (ii) any subordinated obligations of the Issuer under Articles 92.3° to 92.7° of the Insolvency Law, and (iii) any other subordinated obligations 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 of the Issuer qualifying as Tier 2 Instruments and which are not subordinated obligations under Articles 92.4° to 92.7° of the Insolvency Law, and (ii) any other subordinated obligations 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 of the Issuer; (ii) any subordinated obligations of the Issuer under Article 92.1 of the Insolvency Law; (iii) any claim for principal in respect of other contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 instruments or Tier 2 Instruments and which are not subordinated obligations under Articles 92.4° to 92.7° of the Insolvency Law; and (iv) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the Notes.

Only if the obligations of the Issuer in respect of the Notes cease to constitute a Tier 2 Instrument of the Issuer, in whole (but not in part), the payment obligations of the Issuer under the Notes will, to the extent permitted by applicable law, rank as if the Notes were contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 instruments or Tier 2 Instruments and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law

4. INTEREST AND OTHER CALCULATIONS

4.1 Interest Rate

Each Note bears interest on its outstanding principal amount at the relevant Rate of Interest from (and including) the Closing Date. Interest shall be payable annually in arrear on each Interest Payment Date, subject in any case as provided in Condition 5 (*Payments*). The first payment of interest will be made on 16 November 2017 (the "**First Interest Payment Date**").

4.2 Interest Accrual

Each Note will cease to bear interest from the due date for redemption unless payment of the principal in respect of the Note is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of:

- (a) the day on which all sums due in respect of such Note up to that day are paid; and

- (b) the day which is five days after the Agent has notified the Noteholders in accordance with Condition 11 (*Notices*) that it has received all sums due in respect of the Notes up to such fifth day.

4.3 **Interest to (but excluding) the Reset Date**

The Notes bear interest on their outstanding principal amount from and including the Closing Date at the Initial Rate of Interest payable annually in arrear on each Interest Payment Date falling on or before the Reset Date. The first payment (for the period from and including Closing Date to but excluding the First Interest Payment Date and amounting to €9,000) shall be made on the First Interest Payment Date.

4.4 **Interest from (and including) the Reset Date**

The Notes will bear interest on their outstanding principal amount from and including the Reset Date at the applicable Rate of Interest payable annually in arrear on each Interest Payment Date falling after the Reset Date.

4.5 **Determination of Reference Rate in relation to Reset Period**

The Agent will, as soon as practicable after 11:00 a.m. (Brussels time) on the Reference Rate Determination Date, determine the Reference Rate for the Reset Period and calculate the amount of interest payable per Note on each Interest Payment Date falling after the Reset Date (each a Reset Interest Amount).

4.6 **Publication of Reference Rate and Reset Interest Amount**

The Agent will cause the Reference Rate and the Reset Interest Amount determined by it, together with the Interest Payment Dates falling after the Reset Date, to be notified to the Issuer and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 11 (*Notices*).

4.7 **Calculation of amount of interest per Note**

The amount of interest payable in respect of any Note for any period shall be calculated by:

- (a) applying the applicable Rate of Interest to the outstanding principal amount;
- (b) multiplying the product thereof by the Day Count Fraction; and
- (c) rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

4.8 **Notifications etc**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Agent will (in the absence of gross negligence, wilful default, bad faith or manifest error) be binding on the Issuer and the Noteholders and (subject as aforesaid) no liability to any such Person will attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

5. **PAYMENTS**

5.1 **Method of payment**

Payments of principal and interest in respect of the Notes will be made by transfer to the registered account of the relevant Noteholder maintained by or on behalf of it with a bank that processes payments in a city in which banks have access to the TARGET System, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at close of business on the day immediately preceding the date on which the payment of principal or interest, as the case may be, falls due. Noteholders must rely on the procedures of Iberclear or, as

the case may be, the relevant Iberclear Member to receive payments under the relevant Notes. The Issuer and the Agent will have no responsibility or liability for the records relating to payments made in respect of the Notes.

5.2 Payments subject to fiscal laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

5.3 Delay in payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due as a result of the due date not being a business day.

6. REDEMPTION AND PURCHASE

6.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its outstanding principal amount on the Maturity Date.

6.2 Redemption at the option of the Issuer (Issuer Call)

The Issuer may, subject to compliance with the Applicable Banking Regulations then in force and subject to the prior consent of the Regulator, if required, having given not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 11 (*Notices*), the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all of the Notes then outstanding on 16 November 2021 (the "**Call Date**") at their outstanding principal amount together, if appropriate, with interest accrued to (but excluding) the Call Date.

6.3 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, subject to compliance with the Applicable Banking Regulations then in force, and subject to the previous consent of the Regulator, if required, at any time, on giving not less than 30 and not more than 60 days' notice to the Agent and, in accordance with Condition 11 (*Notices*) the Noteholders (which notice shall be irrevocable), if:

(a) (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*); or

(ii) the Issuer would not be entitled to claim a deduction in computing taxation liabilities in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction would be materially reduced,

in each case as a result of any change in, or amendment to, the laws or regulations of any 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 Closing Date; and

(b) in the case of (a)(i) above, such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6.3 (*Redemption and Purchase - Redemption for tax reasons*), the Issuer shall (i) make available at its specified office to the Noteholders a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) use its best efforts to make available at its specified office to the Noteholders (A) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts or regarding the change in the applicable tax treatment of the Notes, as a result of such change or amendment and (B) evidence of the Regulator's consent to redemption, if required.

Notes redeemed pursuant to this Condition 6.3 (*Redemption and Purchase - Redemption for tax reasons*) will be redeemed at their outstanding principal amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.4 **Redemption at the option of the Issuer (Capital Event)**

Upon the occurrence of a Capital Event the Notes may be redeemed at the option of the Issuer in whole, but not in part, subject to compliance with the Applicable Banking Regulations then in force, and subject to the prior consent of the Regulator, if required, pursuant to such regulations, at any time, on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 11 (*Notices*), the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption).

Notes redeemed pursuant to this Condition 6.4 (*Redemption and Purchase - Redemption at the option of the Issuer (Capital Event)*) will be redeemed at their outstanding principal amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.5 **Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes at any price in the open market or otherwise in compliance with the Applicable Banking Regulations in force at the time of such a purchase and subject to the prior consent of the Regulator, if required.

Notwithstanding the above, 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: (a) the Issuer has obtained prior supervisory permission therefor; and (b) the total principal amount of the Notes so purchased does not exceed the lower of (x) 10 per cent. of the initial aggregate principal amount of the Notes and such any further notes issued under Condition 13 (*Further Issues*), or (y) 3 per cent. of the Tier 2 Capital of the Issuer outstanding at the relevant time calculated in accordance with the Applicable Banking Regulations.

7. **TAXATION**

7.1 **Payment without Withholding**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction unless such withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note:

- (a) to, or to a third party on behalf of, a holder which is liable for Taxes in respect of such Note by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Note; or
- (b) to, or to a third party on behalf of, a holder in respect of whom the Issuer (or an agent acting on behalf of the Issuer) does not receive such information as may be necessary to allow payments on such Note to be made free and clear of withholding tax or deduction on account of any taxes imposed by a Relevant Jurisdiction, including when the Issuer (or an agent acting on behalf of the Issuer) does not receive such information concerning such holder's identity and tax residence as may be required in order to comply with the procedures that may be implemented to comply with any interpretation of Royal Decree 1065/2007 eventually made by the Spanish Tax Authorities.

In no event will the Issuer be required to pay any additional amount in respect of the Notes for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

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

7.2 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 7.2 (*Taxation - Additional Amounts*).

8. **PRESCRIPTION**

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

9. **EVENTS OF DEFAULT**

If any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in any such case for the purpose of a Permitted Reorganisation) and such order is continuing (an "**Event of Default**"), then any Noteholder in respect of such Notes held by that Noteholder may, unless there has been an Extraordinary Resolution to the contrary at a meeting of the Noteholders, by written notice to the Issuer, declare that such Notes or Note (as the case may be) and all interest then accrued but unpaid on such Notes or Note (as the case may be) shall be forthwith due and payable, whereupon the relevant Notes shall, when permitted by applicable Spanish law, become immediately due and payable at their outstanding principal amount, together with all accrued interest thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Notes to the contrary.

10. **MEETINGS OF THE NOTEHOLDERS AND MODIFICATION**

The provisions of Schedule 1 (*Meetings of Noteholders*) shall apply to meetings of the Noteholders and shall have effect in the same manner as if set out in these Conditions.

11. **NOTICES**

The Issuer shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Notes are listed on AIAF, notices to the Noteholders will be published in the official bulletin of AIAF (*Boletín de Cotización de AIAF*) and/or by means of a regulatory announcement (*hecho relevante*) to the CNMV. Any such notice will be deemed to have been given on the date of the first publication. In addition, so long as the Notes are represented by book-entries in Iberclear, all notices to Noteholders shall be made through Iberclear for on transmission to their respective accountholders.

12. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount and date of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

13. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

13.1 **Governing law**

The title and transfer of the Notes as described in Condition 2.3 (*Title and transfer*), the status of the Notes as described in Condition 3 (*Status of the Notes*), the capacity of the Issuer and the relevant corporate resolutions will be governed by Spanish law. The Deed of Covenant and the Notes (save as provided above) and any non-contractual obligations arising out of or in connection with the Notes are governed by, and shall be construed in accordance with, English law. The Notes are issued in accordance with the formalities prescribed by Spanish law.

13.2 **Submission to Jurisdiction**

- (a) Subject to paragraph (c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes (a "**Dispute**") and accordingly each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 13.2 (*Governing Law and Submission to Jurisdiction - Submission to Jurisdiction*), the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

13.3 **Appointment of Process Agent**

The Issuer appoints Cecabank S. A., London Branch as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Cecabank S. A., London Branch being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

14. **RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

15. **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 Noteholder, by its acquisition of the Notes, each Noteholder (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:

- (a) the effect of the exercise of the Spanish Bail-in Power by the relevant 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 Noteholder 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
- (b) the variation of the terms of the Notes, as deemed necessary by the relevant resolution authority, to give effect to the exercise of the Spanish Bail-in Power by the relevant resolution authority.

This Condition 15 will only apply if English law is no longer deemed to constitute the law of an European Union member state under the provisions of the BRRD as implemented in Spain (including but not limited to, Law 11/2015 and its development regulations) as amended from time to time.

The exercise of the Spanish Bail-Power by the relevant resolution authority pursuant to any relevant laws, regulations, rules or requirements in effect in the Kingdom of Spain is not dependant on the application of this Condition 15.

SCHEDULE 1
MEETINGS OF NOTEHOLDERS

1. **DEFINITIONS**

In this Schedule 1 the following expressions shall have the following meanings unless the context otherwise requires:

"Administrative Agent" means any third party entity appointed by the Issuer acting through its specified office for the purposes of carrying out the duties of the Administrative Agent set out in this Schedule , or, if no such entity is appointed, the Issuer.

"Basic Terms Modification" means any proposal:

- (a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (b) to change the currency in which any amount due in respect of the Notes is payable;
- (c) modification of the Deed of Covenant;
- (d) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (e) to change this definition, the definition of "Extraordinary Resolution" or "Written Resolution", or the definition of "outstanding" in the Conditions;
- (f) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England, in respect of actions or proceedings brought by any Noteholder, set out in Condition 13.3 (*Appointment of Process Agent*);
- (g) to approve any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person; or

in connection with any proposed exchange, substitution or conversion of the type referred to in subparagraph (f) to amend any of the provisions of the Notes describing circumstances in which Notes may be redeemed or declared due and payable prior to their scheduled maturity date.

"Block Voting Instruction" means an English language document issued by a Clearing System or by an Iberclear Member and received by the Administrative Agent in which:

- (a) it is confirmed that on the date thereof Notes (not being Notes in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction) are blocked in an account with a Clearing System and/or the relevant Iberclear Member and that no such Notes will cease to be so blocked until the first to occur of:
 - (i) the conclusion of the meeting specified in such Block Voting Instruction; and
 - (ii) the Notes ceasing with the agreement of the Administrative Agent to be so blocked and the giving of notice by the Administrative Agent to the Issuer in accordance with paragraph 3.2 of the necessary amendment to the Block Voting Instruction;

- (b) it is certified that each Noteholder holding such Notes has instructed the relevant Clearing System (to the extent possible) and/or the relevant Iberclear Member that the vote(s) attributable to the Notes so blocked should be cast in a particular way in relation to the resolution(s) to be put to such meeting and that all such instructions are, during the period commencing 48 Hours prior to the time for which such meeting is convened and ending at the conclusion or adjournment thereof, neither revocable nor capable of amendment;
- (c) the aggregate principal amount of the Notes so blocked is listed distinguishing with regard to each such resolution between those in respect of which instructions have been given that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and
- (d) one or more persons named in such Block Voting Instruction (each hereinafter called a "**proxy**") is or are authorised and instructed by the relevant Clearing System (to the extent possible) and/or the Iberclear Member(s) to cast the votes attributable to the Notes so listed in accordance with the instructions referred to in (iii) above as set out in such Block Voting Instruction.

"**Clearing System**" means Iberclear and any additional or alternative clearing system in which the relevant Notes are from time to time accepted for clearance and includes in respect of any Note any clearing system on behalf of which such Note is held or which is the holder of a Note, in each case whether alone or jointly with any other Clearing System(s).

"**Eligible Person**" means any one of the following persons who shall be entitled to attend and vote at a meeting:

- (a) a bearer of any Voting Certificate; and
- (b) a proxy specified in any Block Voting Instruction.

"**Extraordinary Resolution**" means:

- (a) a resolution passed at a meeting duly convened and held in accordance with the provisions of this Schedule 1 by a majority consisting of not less than three-fourths of the Eligible Persons voting thereon upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on such poll;
- (b) a resolution in writing signed by or on behalf of Noteholders holding not less than three-fourths in principal amount of the Notes for the time being outstanding (a "**Written Resolution**") which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders; or
- (c) consent given by way of electronic consents received by the Administrative Agent through the relevant Clearing System(s) (to the extent possible) and/or through the relevant Iberclear Member(s) by or on behalf of Noteholders holding not less than three-fourths in principal amount of the Notes for the time being outstanding;

"**Voting Certificate**" means an English language certificate issued by the relevant Iberclear Member or Clearing System and received by the Administrative Agent in which it is stated:

- (a) that on the date thereof Notes (not being Notes in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate) are blocked in an account with a Clearing System and/or with the relevant Iberclear Member and that no such Notes will cease to be so blocked until the first to occur of:
 - (i) the conclusion of the meeting specified in such Voting Certificate; and

- (ii) the surrender of the Voting Certificate to the relevant Iberclear Member or Clearing System that issued the same; and
- (b) that the bearer thereof is entitled to attend and vote at such meeting in respect of the Notes represented by such Voting Certificate.

"**24 Hours**" means a period of 24 hours including all or part of a day upon which banks are open for business in both the place where the relevant meeting is to be held and in the place where the Administrative Agent has its specified offices (disregarding for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included all or part of a day upon which banks are open for business in the place where the Administrative Agent has its specified offices; and

"**48 Hours**" means a period of 48 hours including all or part of two days upon which banks are open for business both in the place where the relevant meeting is to be held and in the place where the Administrative Agent has its specified office (disregarding for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included all or part of two days upon which banks are open for business in the place where the Administrative Agent has its specified office.

For the purposes of calculating a period of "**Clear Days**" in relation to a meeting, no account shall be taken of the day on which the notice of such meeting is given (or, in the case of an adjourned meeting, the day on which the meeting to be adjourned is held) or the day on which such meeting is held.

All references in this Schedule 1 to a "**meeting**" shall, where the context so permits, include any relevant adjourned meeting.

2. **EVIDENCE OF ENTITLEMENT TO ATTEND AND VOTE**

A Noteholder may require an Iberclear Member or a Clearing System to procure the issue of Voting Certificates and Block Voting Instructions in accordance with the terms of paragraph 3 (*Procedure for Issue of Voting Certificates and Block Voting Instructions*).

For the purposes of paragraph 3 (*Procedure for Issue of Voting Certificates and Block Voting Instructions*), the Administrative Agent shall be entitled to rely, without further enquiry, on any information or instructions received from a Clearing System (to the extent possible) or from an Iberclear Member and shall have no liability to any Noteholder or other person for any loss, damage, cost, claim or other liability occasioned by its acting in reliance thereon, nor for any failure by a Clearing System or an Iberclear Member to deliver information or instructions to the Administrative Agent.

The holder of any Voting Certificate or the proxies named in any Block Voting Instruction shall for all purposes in connection with the relevant meeting be deemed to be the Noteholder holding the Notes to which such Voting Certificate or Block Voting Instruction relates and the relevant Clearing System and/or Iberclear Member in which such Notes have been blocked shall be deemed for such purposes not to be the Noteholder of those Notes.

3. **PROCEDURE FOR ISSUE OF VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS**

3.1 **Voting Certificate**

A Noteholder holding a Note (not being a Note in respect of which instructions have been given to the Clearing System or the relevant Iberclear Member in accordance with Paragraph 3.2 (Block Voting Instructions) may procure the delivery of a Voting Certificate in respect of such Note by giving notice to the Clearing System or the relevant Iberclear Member through which such Noteholder's interest in the Note is held specifying by name a person (an "**Identified Person**") (which need not be the Noteholder himself) to collect the Voting Certificate and attend and vote at the meeting. The relevant Voting Certificate will be made available at or shortly prior to the commencement of the meeting by the Issuer against presentation by such Identified Person

of the form of identification previously notified by such Noteholder to the Clearing System or the relevant Iberclear Member (as communicated to the Administrative Agent by the Iberclear Member or the Clearing System). The Clearing System or the relevant Iberclear Member may prescribe forms of identification (including, without limitation, a passport or driving licence) which it deems appropriate for these purposes. Subject to receipt by the Administrative Agent from the Clearing System or the relevant Iberclear Member, no later than 24 Hours prior to the time for which such meeting is convened, of notification of the principal amount of the Notes to be represented by any such Voting Certificate and the form of identification against presentation of which such Voting Certificate should be released, the Issuer shall, without any obligation to make further enquiry, make available Voting Certificates against presentation of the form of identification corresponding to that notified.

3.2 **Block Voting Instruction**

- (a) A Noteholder holding a Note (not being a Note in respect of which a Voting Certificate has been issued) may require the Clearing System or relevant Iberclear Member to issue a Block Voting Instruction in respect of such Note by first instructing the relevant Iberclear Member or (to the extent possible) the Clearing System through which such Noteholder's interest in the Note is held to procure that the votes attributable to such Note should be cast at the meeting in a particular way in relation to the resolution or resolutions to be put to the meeting. Any such instruction shall be given in accordance with the rules of the Clearing System then in effect or as agreed with the relevant Iberclear Member. Subject to receipt by the Administrative Agent of instructions from the relevant Iberclear Member or (to the extent possible) the Clearing System, no later than 24 Hours prior to the time for which such meeting is convened, of notification of the principal amount of the Notes in respect of which instructions have been given and the manner in which the votes attributable to such Notes should be cast, the Administrative Agent shall, without any obligation to make further enquiry, appoint a proxy to attend the meeting and cast votes in accordance with such instructions.
- (b) Each Block Voting Instruction shall be deposited by the Administrative Agent at such place specified by the Issuer for the purpose not less than 24 Hours before the time appointed for holding the meeting at which the proxy or proxies named in the Block Voting Instruction or form of proxy proposes to vote, and in default the Block Voting Instruction or form of proxy shall not be treated as valid unless the Chairman of the meeting decides otherwise before such meeting proceeds to business. A copy of each Block Voting Instruction shall (if so requested by the Issuer) be deposited with the Issuer before the commencement of the meeting but the Issuer shall not thereby be obliged to investigate or be concerned with the validity of or the authority of the proxy or proxies named in any such Block Voting Instruction or form of proxy.
- (c) Any vote given in accordance with the terms of a Block Voting Instruction shall be valid notwithstanding the previous revocation or amendment of the Block Voting Instruction or of any of the instructions of the relevant Noteholder through the relevant Iberclear Member or the relevant Clearing System (as the case may be) pursuant to which it was executed provided that no indication in writing of such revocation or amendment has been received by the Issuer at its registered office by the time being 24 Hours before the time appointed for holding the meeting at which the Block Voting Instruction is to be used.

4. **CONVENING OF MEETINGS, QUORUM AND ADJOURNED MEETINGS**

- (a) The Issuer may at any time, and the Issuer shall upon a requisition in writing in the English language signed by the Noteholders of not less than ten per cent. in principal amount of the Notes for the time being outstanding, convene a meeting and if the Issuer makes default for a period of seven days in convening such a meeting the same may be convened by the requisitionists. Whenever the Issuer is about to convene any such meeting the Issuer shall forthwith give notice in writing to the Agent of the day, time and place thereof and of the nature of the business to be transacted thereat.

- (b) At least 21 Clear Days' notice specifying the place, day and hour of meeting shall be given to the Noteholders prior to any meeting in the manner provided by Condition 11 (*Notices*). Such notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting thereby convened, shall include the forms of Block Voting Instruction and Voting Certificate and, where an Extraordinary Resolution will be proposed at the meeting, shall either specify in such notice the terms of such resolution or state fully the effect on the Noteholders of such resolution, if passed. Such notice shall include statements as to the manner in which Noteholders may arrange for Voting Certificates or Block Voting Instructions to be issued. A copy of the notice shall be sent by post to the Issuer. The Administrative Agent shall forward a copy of the notice to Iberclear for the attention of Iberclear.
- (c) A person (who may but need not be a Noteholder) nominated in writing by the Issuer shall be entitled to take the chair at the relevant meeting, but if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting the Noteholders present shall choose one of their number to be Chairman, failing which the Issuer may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.
- (d) At any such meeting one or more Eligible Persons present and holding or representing in the aggregate more than 50 per cent. in principal amount of the Notes for the time being outstanding shall (subject as provided below) form a quorum for the transaction of business (including the passing of an Extraordinary Resolution) **provided that** at any meeting the business of which includes any Basic Terms Modification (which shall only be capable of being effected after having been approved by Extraordinary Resolution) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds of the principal amount of the Notes for the time being outstanding. No business (other than the choosing of a Chairman) shall be transacted at any meeting unless the requisite quorum is present at the commencement of the relevant business.
- (e) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any such meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall if convened upon the requisition of Noteholders be dissolved. In any other case it shall stand adjourned for such period, being not less than 13 Clear Days nor more than 42 Clear Days, and to such place as may be appointed by the Chairman either at or subsequent to such meeting. If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve such meeting or adjourn the same for such period, being not less than 13 Clear Days (but without any maximum number of Clear Days), and to such place as may be appointed by the Chairman either at or subsequent to such adjourned meeting, and the provisions of this sentence shall apply to all further adjourned such meetings.
- (f) At any adjourned meeting one or more Eligible Persons present (whatever the principal amount of the Notes so held or represented by them) shall (subject as provided below) form a quorum and shall have power to pass any resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the requisite quorum been present **provided that** at any adjourned meeting the quorum for the transaction of business comprising any Basic Terms Modification shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third of the principal amount of the Notes for the time being outstanding.

- (g) Notice of any adjourned meeting shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in Paragraph 4(b) and such notice shall state the required quorum.

5. CONDUCT OF BUSINESS AT MEETINGS

- (a) Every question submitted to a meeting shall be decided in the first instance by a show of hands. A poll may be demanded (before or on the declaration of the result of the show of hands) by the Chairman, the Issuer or any Eligible Person (whatever the amount of the Notes so held or represented by him).
- (b) At any meeting, unless a poll is duly demanded, a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- (c) Subject to paragraph 5(e), if at any such meeting a poll is so demanded it shall be taken in such manner and, subject as provided below, either at once or after an adjournment as the Chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.
- (d) The Chairman may, with the consent of (and shall if directed by) any such meeting, adjourn the same from time to time and from place to place; but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.
- (e) Any poll demanded at any such meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.
- (f) Any director or officer of the Issuer, their lawyers and financial advisers and any director or officer of any of the Administrative Agent may attend and speak at any meeting. Save as aforesaid, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting unless he is an Eligible Person. No person shall be entitled to vote at any meeting in respect of Notes which are deemed to be not outstanding by virtue of the proviso to the definition of "outstanding" in the Conditions.
- (g) At any meeting:
 - (i) on a show of hands every Eligible Person present shall have one vote; and
 - (ii) on a poll every Eligible Person present shall have one vote in respect of each €1.00 in principal amount of the Notes held or represented by such Eligible Person.

Without prejudice to the obligations of the proxies named in any Block Voting Instruction, any Eligible Person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

- (h) The proxies named in any Block Voting Instruction need not be Noteholders. Nothing herein shall prevent any of the proxies named in any Block Voting Instruction from being a director, officer or representative of or otherwise connected with the Issuer.
- (i) The Noteholders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject, in the case of an Extraordinary Resolution to be proposed at a meeting, to the provisions relating to quorum contained in Paragraph 4(d) and 4(f)) namely:
 - (i) Power to approve any compromise or arrangement proposed to be made between the Issuer, the Noteholders or any of them.

- (ii) Power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders or the Issuer against any other or others of them or against any of their property whether such rights arise under the Conditions, the Notes or otherwise.
 - (iii) Power to agree to any modification of the provisions contained in the Conditions or the Notes which is proposed by the Issuer.
 - (iv) Power to give any authority or sanction which under the provisions of this Schedule 1 or the Notes is required to be given by Extraordinary Resolution.
 - (v) Power to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution.
 - (vi) Power to approve any scheme or proposal for the exchange or sale of the Notes for or the conversion of the Notes into or the cancellation of the Notes in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Noteholders to execute an instrument of transfer of the Notes held by them in favour of the persons with or to whom the Notes are to be exchanged or sold respectively.
 - (vii) Power to approve the substitution of any entity for the Issuer (or any previous substitute) as the principal debtor in respect of the Notes.
- (j) Any Extraordinary Resolution (i) passed at a meeting of the Noteholders duly convened and held (ii) passed as an Extraordinary Resolution in writing or (iii) passed by way of electronic consents given by Noteholders through the relevant Iberclear Member and/or through the relevant Clearing System(s) (to the extent possible), in accordance with the provisions of this Schedule 1, shall be binding upon all the Noteholders whether or not present or whether or not represented at any meeting and whether or not voting on such Extraordinary Resolution and each of them shall be bound to give effect to the Extraordinary Resolution accordingly and the passing of any such Extraordinary Resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of the voting on any Extraordinary Resolution duly considered by the Noteholders shall be published in accordance with Condition 11 (*Notices*) by the Issuer within 14 days of such result being known, **provided that** the non-publication of such notice shall not invalidate such result.
- (k) Minutes of all resolutions and proceedings at every meeting shall be made and entered in books to be from time to time provided for that purpose by the Issuer and any such minutes if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings transacted, shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted at the meeting to have been duly passed or transacted.
- (l) Subject to all other provisions of this Schedule 1, the Administrative Agent may without the consent of the Noteholders prescribe such further or alternative regulations regarding the requisitioning and/or the holding of meetings and attendance and voting at them as the Administrative Agent may in its discretion think fit (including, without limitation, the substitution for periods of 24 Hours and 48 Hours referred to in this Schedule 1 of shorter periods). Such regulations may, without prejudice to the generality of the foregoing, reflect the practices and facilities of any relevant Clearing System. Notice of

any such further or alternative regulations may be given to Noteholders in accordance with Condition 11 (*Notices*) at the time of service of any notice convening a meeting.

SUMMARY OF CLEARANCE AND SETTLEMENT PROCEDURES APPLICABLE TO BOOK-ENTRY NOTES

Below is a brief summary of the Spanish clearance and settlement procedures applicable to book-entry notes such as the Notes.

Notwithstanding this summary, it should be noted that the Spanish clearing, settlement and registry system of securities transactions is undergoing a significant reform to align it with the practices and standards of its European neighbours and prepare it for the implementation of future integration projects.

In this sense, Law 32/2011, of 4 October, which amends LMV ("**Law 32/2011**"), anticipated and set the master plan of the future Spanish clearing, settlement and registry system providing for certain changes that are being implemented and that will modify the system and allow for the integration of the post trading Spanish systems into the Trans-European Automated Real-Time Gross Settlement Express Target (TARGET2) System ("**TARGET2**").

Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 ("**Regulation (EU) 909/2014**") provides that the maximum settlement period as regards transactions in transferable securities which are executed on trading venues shall be no later than on the second business day after the relevant trade takes place, subject to certain exemptions. In this regards, since October 2014, transactions affecting debt securities settled through Iberclear are generally settled two business days after they have been made.

In this respect, the Spanish clearing, settlement and recording system has been recently adapted by Law 11/2015 and Royal Decree 878/2015 to the provisions set forth in Regulation (EU) No. 909/2014, which further the reform of the Spanish clearing, settlement and registry system of securities transactions

In any case, it should be emphasised that, as of the date of this Prospectus, the procedures for fixed-income securities remain practically the same.

The reform of Spain's clearing, settlement and registry system, which is expected to be implemented by 18 September 2017, introduces significant new features that affect all classes of securities and all post-trade activities and, following it, Spain's clearing, settlement and registry system will allow the connection of the post-trading Spanish systems to TARGET2. In any case, the Reform is still an on-going process and it might still be subject to changes and modifications both in the expected timetable for its implementation and in the content and scope of the measures to be adopted and implemented in the Spanish clearing, settlement and registry system.

In particular, this reform would introduce three fundamental changes that, in turn, involve a number of operating modifications. Such changes are as follows: (i) a new registry system based on balances; (ii) the introduction of a new central clearing counterparty (BME Clearing, S.A., the "**CCP**"); and (iii) integration of the current CADE (*Central de Anotaciones de Deuda Pública*) and SLCV (*Servicio de Compensación y Liquidación de Valores*) into a single platform managed by Iberclear which operates under the trade name of "ARCO".

The reform is expected to be implemented in two phases:

- (i) The first phase was implemented on April 2016 and set up a new clearance and settlement system for equity securities, including the creation of the CCP for post-trade operations compatible with TARGET2 (messages, account structure, definition of operations, etc.). Accordingly, the SCLV platform will be discontinued.

Since the first week of October 2016 the new settlement and registration platform (ARCO) operates under a T+2 settlement standard by which any transaction must be settled within two stock-exchange business days following the date on which the relevant trade is completed.

The CADE platform will continue to operate unchanged and cash settlements in the new system will be made in the TARGET2-Bank of Spain cash accounts, as at present.

- (ii) The second phase will be implemented upon Iberclear's connection to TARGET2. At that time, fixed-income securities will be transferred to the new system, and CADE will be discontinued.

The second phase will entail unifying the registry and settlement approach for both equities and fixed-income.

Iberclear

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal (Iberclear) is the Spanish central securities depository in charge of both the register of securities held in book-entry form, and settlement of all trades from the Spanish Stock Exchanges, Latibex (the Latin American stock exchange denominated in EUR), the Book-Entry Public Debt Market (*Mercado de Deuda Pública en Anotaciones*) and the Spanish AIAF Fixed Income Securities Market (*AIAF Mercado de Renta Fija*). To achieve this, Iberclear uses two technical platforms, SCLV (for the Spanish Stock Exchanges and Latibex) and CADE (for the Book-Entry Public Debt Market and AIAF).

Iberclear is owned by *Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*, a holding company, which holds a 100 per cent. interest in each of the Spanish official secondary markets and settlement systems. The corporate address of Iberclear is located at Plaza de la Lealtad, 1, Madrid (28014), Spain.

Iberclear securities registration system

Iberclear and the Iberclear Members (*entidades participantes*) have the function of keeping the book-entry register of securities traded on AIAF.

The book-entry register structure is a two-tier level registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records corresponds to the Iberclear Members. The central registry reflects: (i) one or several proprietary accounts which show the balances of the Iberclear Members' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the Iberclear Members hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement orders. Each Iberclear Member, in turn, maintains the detail records of the owners of the securities held in their general third-party accounts.

Spanish law considers the legal owner of the securities to be:

- (i) the Iberclear Member appearing in the records of Iberclear as holding the relevant securities in its own name;
- (ii) the investor appearing in the records of the Iberclear Member as holding the securities; or
- (iii) the investor appearing in the records of Iberclear as holding securities in a segregated individual account.

Iberclear settlement of securities traded in AIAF

Securities traded in AIAF are private fixed income securities, including corporate bonds (for example, medium term notes and mortgage bonds), represented either in a dematerialised form or by certificates.

In the AIAF settlement system, transactions may be settled spot, forward (settlement date more than five days after the relevant trade date), with a repurchase agreement on a fixed date and double or simultaneous transactions (two trades in opposite directions with different settlement dates).

The settlement system used for securities admitted for trading in AIAF is the Model 1 delivery versus payment system, as per the classification of the Bank for International Settlements: that is, it is a "transaction-to-transaction" cash and securities settlement system with simultaneity in its finality.

Transactions are settled on the business day agreed by participants at the moment of the trade.

Settlement cycles: The CADE Platform

The process of settling all reported trades with a value date on a specific day, is to be carried out in three phases:

- (i) first settlement cycle;
- (ii) real-time settlement; and
- (iii) session close.

The first cycle includes all transactions reported to CADE up to 6:00 p.m. (Madrid time) of D-1, and these are settled if sufficient funds and an adequate securities balance are available in the pertinent accounts.

The real-time settlement process is carried out between 7:00 a.m. (Madrid time) and 4:00 p.m. (Madrid time) of the settlement day, and the system first checks if a sufficient securities balance is available. If it is available, but the buyer of the securities does not have available funds, the order is rejected and returned to CADE, and placed in a queue. The process is periodically activated until enough balance is available in the relevant accounts to settle outstanding orders with finality. If the balance in the seller's securities account is insufficient, the transaction is placed in a queue. When a credit is lodged in a securities account, the system checks whether queued orders can be processed.

At the end of the day, the system tries one last time to settle all transactions not settled in the first cycle or during the process in real time. The settlement cycle at the end of the day takes place at 5:00 p.m. (Madrid time).

If the seller's securities account has sufficient balance, the system checks (by means of a comparison with the payment side) if there is also sufficient balance in the buyer's cash account. That is, securities and cash are not immediately blocked. Once the transfers of securities and cash have been executed, each of the transactions is considered final.

Euroclear and Clearstream

Investors who do not have, directly or indirectly through their custodians, a participating account with Iberclear may hold their investment in the Notes through bridge accounts maintained by each of Euroclear and Clearstream with Iberclear Members.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUER

History and Development

Banco Mare Nostrum, S.A. ("**BMN**" or the "**Issuer**") was incorporated as a Spanish company with legal status as a public limited company (*sociedad anónima*) with the status of a bank. The Issuer is subject to special banking legislation, and connected regulations in respect of the management, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito* and *Real Decreto 84/2015, de 13 de febrero*), and is under the supervision, control and regulation of the Bank of Spain (*Banco de España*) and the ECB under the new system of supervision created by the Single Supervisory Mechanism, BMN is also subject to the Restated Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*). The Issuer's registered office is in Madrid, Spain, at Paseo de Recoletos, 17, 28004, and the telephone number of its registered office is +34 91 308 94 47.

The Issuer's legal and commercial names are Banco Mare Nostrum, S.A. and BMN, respectively.

The Issuer was created for an indefinite period and was registered at the Mercantile Registry Office of Madrid, in volume 28,378, Section 8, sheet 1, page No. M-511037, entry number 1, on 23 December 2010. In addition, the Issuer is registered in the Special Register of the Bank of Spain (*Banco de España*), under number 0487.

BMN is a Spanish retail bank with total assets amounting to €40,644 million as of 30 June 2016. Its primary business is supplying commercial and retail banking facilities and providing financial products and services to individuals, small and medium enterprises ("**SMEs**") and other corporate entities.

BMN is the result of the integration of four previously independent Spanish savings banks, or "*cajas de ahorros*": Caja de Ahorros de Murcia "*Caja Murcia*", Caja General de Ahorros de Granada "*Caja Granada*", Caja de Ahorros y Monte de Piedad de las Baleares "*Sa Nostra*" and Caixa d'Estalvis del Penedès (the "**Cajas**"). Currently, BMN is comprised of three of the four original networks of the Cajas which have been converted into foundations, namely Fundación Caja de Ahorros de Murcia, Fundación Caja General de Ahorros de Granada and Fundación Pinnae and Fundación Caja de Baleares, respectively. The network of Caixa d'Estalvis del Penedès was sold to Banco Sabadell in 2013.

The Issuer has strong historical ties to its core markets—principally the regions of Murcia, Andalusia, the Community of Valencia, and the Balearic Islands—where its founding Cajas have been established for several decades, and in some cases for over a century. Through its branch network of 682 branches and 3,904 full time employees as of 30 June 2016, BMN provides financial services to over 2.3 million customers, 1.4 million of them active individuals and 0.1 million legal entities.

On 30 June 2010, the Cajas signed an agreement whereby BMN was contractually established as the head of a group-based banking credit institution established as an Institutional Protection Scheme (*sistema institucional de protección* or "**SIP**") in conformity with the provisions of Article 8.3(d) of Law 13/1985 (the "**Initial Integration Agreement**"). SIPs are aimed at facilitating the sharing of liquidity and credit risk among financial institutions by establishing minimum equity levels for credit institutions.

Consequently, pursuant to the Initial Integration Agreement and applicable law, the Cajas were combined into an integrated group, recognised as a consolidated group from an accounting and regulatory point of view and as a concentration instrument from the point of view of competition regulation (the "**Group**").

BMN was founded and incorporated by the Cajas on 22 December 2010 to act as the central entity of the SIP and to be responsible for the Group's business strategy, internal controls and risk management and regulatory compliance, among other things. The formation of the Group was finalised on 31 December 2010 once BMN had satisfied all of the necessary preconditions required for such formation, pursuant to the Initial Integration Agreement (as amended on 22 December 2010) and applicable regulations.

On 29 June 2010 the FROB agreed to subscribe for an aggregate amount of €15 million of BMN PPCs, which were disbursed on 31 December 2010.

The financial context at that time and the capital requirements under RDL 2/2011 resulted in BMN's need to reinforce its economic integration with full integration of its businesses through the central entity of the SIP, which was BMN. Accordingly, a segregation of the banking business of the Cajas into BMN was implemented, through this process the Cajas transferred all of the assets and liabilities relating to their banking businesses to BMN (except certain assets and liabilities retained by the respective Cajas associated with their charitable work (*obras sociales*)). This segregation was initiated in early 2011 and was completed and became effective on 28 September 2011 (although it became effective retroactively from January 2011 for accounting purposes). After the segregation process BMN was required to keep consolidated annual accounting reports for the Cajas in addition to its own financial information.

On 19 April 2011, the Group signed the Integration Agreement (the "**Integration Agreement**"), which replaced the Initial Integration Agreement. The main purpose of the Integration Agreement was to update the Initial Integration Agreement to reflect the new structure of the SIP after the segregation (e.g. termination of the mutual support obligations, cross guarantees and mutualisation of results provisions originally set forth under SIP legislation and no longer applicable due to the segregation, as provided in RDL 2/2011). In addition, on the same date, the Cajas signed a shareholders' agreement in order to manage their joint stake in BMN after the segregation.

In November 2011, BMN issued mandatory convertible bonds to institutional investors worth €242 million.

On 18 December 2012, as a part of the commitments stated in its Restructuring Plan, BMN entered into an agreement to sell its interest in Caixa Penedès to Banco Sabadell, transferring €10.0 billion in assets and €9.6 billion in liabilities (on the closing date on 31 May 2013, the assets and liabilities totaled €9.8 billion and €9.6 billion, respectively), including employees and 462 branch offices, to Banco Sabadell. As result of the transfer BMN's presence is no longer as concentrated in Catalonia and Aragon.

On 20 December 2012 the Board signed off on BMN's Restructuring Plan, which was approved by the relevant authorities (European Commission decision of 20 December 2012 (State aid n° SA.35488 (2012/N) – Spain Restructuring of Banco Mare Nostrum, S.A.; C(2012) 9886 FINAL)). The plan is designed to ensure BMN's long-term viability and strengthen its capital structure.

In February 2013, €242 million of mandatory convertible bonds were converted into ordinary shares. At the same time, the €15 million of PPCs subscribed by the FROB on 29 June 2010 also converted into ordinary shares. This, together with the subscription by the FROB of €730 million of capital through bonds issued by the ESM, made the FROB the largest shareholder in the Group.

Following the adoption of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, which came into effect in 1 January 2014, and Law 26/2013, of 27 December, on savings banks and banking foundations, which legislates for the transformation of all savings banks into banking foundations or ordinary foundations respectively, each of the Cajas became a foundation and is no longer legally a credit institution. They are therefore no longer subject to the solvency and liquidity requirements placed on credit institutions.

BMN's Business Areas

BMN categorises its business by types of customers, products and services, which helps BMN to tailor its business to its customers and operate efficiently.

BMN groups its customer base into two principal categories on a monthly basis: individuals and corporate entities, dividing each category further into smaller ones.

BMN's individual customer base breaks down into six categories based on each customer's income level, source of income, assets under management and age. These categories of customers are:

- **Private banking.** Individual customers with over €500,000 in assets managed by BMN.
- **Personal banking.** Individual customers with between €100,000 and €500,000 in assets managed by BMN, or more than €60,000 in annual income.

- **Self employed individuals.** Individual customers with specific *código nacional de actividades económicas* (CNAE) (national code of economic activities) or with specific products for the self employed.
- **International customers.** Individual customers with foreign identification documents.
- **Universal banking.** Individual customers with less than €60,000 in assets managed by BMN, and less than €60,000 in annual income: (i) between the ages of 31 and 64 years old; (ii) under the age of 31; and (iii) 65 years old or older.
- **Mass affluent.** Individual customers with at least €60,000 but less than €100,000 in assets managed by BMN, or between €30,000 and €60,000 in annual income.

BMN's corporate entity customer base breaks down into eight categories based on the type and size of each entity. These categories are:

- **Large enterprise.** Clients which have more than 250 employees, and meet at least one of the following conditions: (i) The annual revenue is at least €50 million; and (ii) the total assets amount to at least €43 million.
- **Medium enterprise.** Clients which have more than 50 employees, and meet at least one of the following conditions: (i) The annual revenue is at least €10 million; and (ii) the total assets amount to at least €10 million.
- **Small enterprise.** Clients which have more than 10 employees, and meet at least one of the following conditions: (i) the annual revenue is at least €2 million; and (ii) the total assets amount to at least €2 million.
- **Microenterprise.** Clients who have less than 10 employees and meet at least one of the following conditions: (i) the annual revenue is less than €2 million; and (ii) the total assets amount to less than €2 million.
- **Public entity.** Enterprise customers who are identified on an individual basis.
- **Social economic associations.** Enterprise customers who are identified on an individual basis.
- **Developers.** Enterprise customers who are identified on an individual basis.
- **Others.** Clients that do not meet the criteria to be included in any of the previous segments.

BMN has established certain policies with respect to its principal customer categories (including, in some instances, policies that touch on both individual and corporate categories), which, as of the date of this Prospectus, include private banking, personal banking, self-employed individuals and SMEs, international, youth and corporate banking (which is a combination of several of its corporate customer segments).

- **Private banking.** BMN's private banking customers are those who have over €500,000 in assets managed by the bank. BMN has developed a model for managing this segment that aims to broaden its customer base in this area and promote the loyalty of existing customers.
- **Personal banking.** BMN's personal banking customers are those who have between €100,000 and €500,000 in assets managed by the bank, or more than €60,000 in annual income. BMN's personal banking segment customer service model is designed on the basis of specific criteria to identify customers for this segment (based on their current income and anticipated future growth) and to determine all other aspects of commercial, operational and support efforts BMN makes with respect to this group. For example, this model determines the number of managers per branch and the basic action strategies for each customer within this segment. It also helps develop tailored offerings of BMN's products and services to its personal banking customers in each phase of recruiting, retention and loyalty development.
- **Self-employed individuals and SMEs.** BMN employs a number of strategies to attract and retain these two customer groups, notably: (i) the development of specialised products that facilitate the

customers' access to new technologies and markets and aid in entrepreneurial endeavors; (ii) searching for alliances that would provide technological infrastructure and services that improve the variety and quality of products and services offered; (iii) the development of specific financing products; and (iv) targeting the most representative merchants in each area and increasing the intensity and the focus of the management of certain commercial cores.

- **International customers.** BMN employs a number of strategies to attract and retain these customers: (i) preparing a catalog of products and services specifically geared to their needs and interests; (ii) providing tailored advisory services; and (iii) providing financial tools for their needs.
- **Youth.** BMN works to provide global solutions to its customers in this segment and help promote entrepreneurship through work with universities and other scholarly institutions.
- **Corporate banking.** This category covers large enterprises. BMN's strategic focus for these customers is on building close relationships developed by specialist business managers using personalised customer portfolios.

BMN's Products and Services

BMN offers a wide range of financial products to individuals and business, including, among others, traditional deposits, loans, savings plans, investment funds, pensions and insurance. BMN also provides a wide range of services to cover its customers' financial needs, including, among others, payroll and pension services, provision of debit and credit cards, provision of insurance (life and general) and data phone installation.

Financial products

As a financial institution that specialises in retail banking, a large part of BMN's business involves financing individuals and SMEs, which together account for 94 per cent. of its gross lending to customers. BMN's wide range of financial products offers its various customer segments financing options that meet their individual needs.

BMN also offers more specialised financial products, including guarantees, renting, leasing, capital financing and risk coverage.

Savings products

BMN offers a range of savings products that allow its customers to deposit and manage their resources according to their needs. BMN continually develops new retail products to broaden its offerings to customers and improve its financial cost.

BMN has a market share of deposits of 30.4 per cent., 34.2 per cent. and 22.9 per cent. in the regions of Murcia, Andalusia and the Balearic Islands, respectively (source: Bank of Spain).

Non-banking products

BMN offers its customers a wide range of non-banking products, principally investment funds, pension funds and insurance. BMN offers these products through all of its distribution channels, with a special focus on its commercial network.

Investment funds

BMN's investment fund products are offered through its various collective investment instruments, mainly mutual funds. BMN offers these products under the supervision of the CNMV. BMN offers a wide range of investment fund options that can meet any investor profile.

BMN's investment funds products had a balance of €1,414 million as of 30 June 2016.

Distribution of shares collective investment undertakings of Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.

Banco Madrid Gestión de Activos, S.G.I.I.C., S.A. ("**BM Gestión**") signed an exclusive agreement for the distribution of shares and participations in collective investment undertakings with BMN on 15 November 2013.

As from 25 June 2015, and following administrative intervention actions by Banco de Madrid, S.A.U. and BM Gestión, the CNMV appointed Renta 4 Gestora, S.G.I.I.C., S.A. as the provisional manager of the collective investment undertakings which had been managed to date by BM Gestión, in order to ensure that the collective investment undertakings continue to be managed by Renta 4 Gestora, S.G.I.I.C., S.A. in its capacity as provisional management company as at the date of this Prospectus.

In the context of the insolvency of and liquidation plan for Banco de Madrid, S.A.U., holder of 100 per cent. of the share capital of BM Gestión, the process for the sale of BM Gestión was initiated and Trea Asset Management, S.G.I.I.C., S.A. ("**TREA**") was selected through a process to acquire BM Gestión. TREA is conducting the administrative process for the change of control of BM Gestión before the CNMV, which is a prerequisite to the effectiveness of the acquisition. In accordance with the administrative processes in connection with BM Gestión's change of control, TREA and BMN have drafted the basic structure of the possible future distribution of shares and participations in collective investment undertakings, with some relevant aspects still pending to be finalized and finally approved by both entities.

Insurance and pension plans

BMN's bancassurance division is formed by a group of insurance companies specialising in both mediation and distribution, as insurance companies in various joint ventures with Caser and Aviva, insurers of reference in the Spanish market. The aim of this division is to allow BMN to provide a competitive and complete global offering of life insurance products, pension plans and general insurance, as well as the principal tools for their commercial distribution.

BMN's principal business lines in its bancassurance business are:

- *life insurance*, comprising a wide range of products designed to meet customers' needs with respect to savings, pension, death and disability insurance;
- *pension plans*, comprising a wider range of products for retirement, including the both medium- and long-term savings opportunities; and
- *general insurance*, comprising products to meet the needs of individual customers, professionals and corporate entities, including, among others, car, home, health, accident, payment protection, death, liability, agricultural, communities, fire, theft, commercial, SMEs, construction risk and decennial insurance.

With respect to BMN's life insurance and pension plan business, BMN has the following key partnerships through joint ventures:

- Cajamurcia Vida y Pensiones de Seguros y Reaseguros S.A., a life insurance company in which BMN has a 50 per cent. interest (the other 50 per cent. owned by Aviva Europe SE);
- Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A., a life insurance company in which BMN has a 50 per cent. interest (the other 50 per cent. owned by Unicorp Vida, Compañía de Seguros y Reaseguros, S.A.); and
- Sa Nostra Compañía de Seguros de Vida, S.A., a life insurance company in which Caser holds an 81 per cent. interest and BMN holds a 19 per cent. interest.

BMN has an agency agreement for the distribution of insurance, which provides for the distribution and marketing by BMN's bancassurance operator, BMN Mediación, Operador de Banca-Seguros Vinculado, S.L.U., (100 per cent. owned by BMN) of insurance products with the joint ventures, Caser or other insurance companies. It aims to attract more customers and increase, to the extent possible, the sale of exclusive products.

Within BMN's life insurance business, products are categorised as life insurance risk and life savings. In life savings BMN had a provision of €1,629 million as of 30 June 2016.

With respect to pensions, BMN sells them in three systems: individual, employment and associates. It had a provision of €1,240 million as of 30 June 2016.

In BMN's non-life insurance business, products are divided in the following categories: car, home, commercial, SMEs, accident, health, RC, payment protection, agriculture, decennial and others.

Services. Payment methods

BMN offers all of its customers credit and debit card services in all forms (prepaid, deferred debit, end-of-month credit, revolving credit, corporate, gold, platinum and premium toll cards and gas cards), bank checks and transfers, among other services.

BMN also has the flexibility to accept card payments for e-commerce, with security tools in place for its business and its customers. BMN also provides applications to its customers that enable them to make payments on their smartphones.

Outsourcing Contracts

BMN has also entered into a number of outsourcing agreements in respect of the outsourcing of various business and administrative activities. These include:

IT Service Agreement with IBM

On 27 September 2013, BMN entered into an agreement with IBM Global Services España, S.A. for IT services. The agreement provided for the incorporation of a new entity to render IT services to the Group. On 14 November 2013, this entity was incorporated under the name Information Technology Nostrum, S.L. ("**IT Nostrum**"), with BMN holding a 9.97 per cent. ownership interest and IBM holding the remaining 90.03 per cent. ownership interest. IT Nostrum now handles BMN's IT services, which were previously handled by InfoCaja, S.A.

Outsourcing Agreement with Accenture

On 28 February 2014, BMN entered into an agreement with Accenture Outsourcing Services, S.A. ("**Accenture**"), pursuant to which Accenture provides certain process management and administrative services.

Outsourcing Agreement with Aktua

On 31 March 2014, BMN entered into an agreement with Aktua Soluciones Financieras, S.L.U. ("**Aktua**"), pursuant to which Aktua provides certain process management and administrative services with regard to real estate assets belonging to BMN.

Outsourcing Agreement with Docout

On 23 April 2014, BMN entered into an agreement with Docout, S.L. ("**Docout**"), pursuant to which Docout provides certain process management and administrative services (including custody, filing and logistic services).

Outsourcing Agreement with Lindorff

On 30 September 2015, BMN entered into an agreement with Lindorff España, S.L.U. ("**Lindorff**") pursuant to which Lindorff provides management debt services (including judicial proceedings and out-of-court settlement).

Branches and Distribution Channels

BMN's extensive branch network provides the foundation for its businesses. As of 30 June 2016, BMN had a total of 682 branches in its network. BMN has maintained a policy of continually evaluating its branch network, increasing the degree of specialisation of the branches focusing on customer experience, and closing and consolidating branches to maximize efficiency and profitability.

The table below sets out the distribution of BMN's branches. The geographical distribution across various autonomous regions and autonomous cities of Spain as of 30 June 2016 is as follows:

Autonomous Community	Number of Branches
	30 June 2016
Andalusía.....	252
Granada.....	154
Jaén.....	46
Almería.....	19
Málaga.....	13
Córdoba.....	8
Seville.....	7
Cádiz.....	3
Huelva.....	2
Valencian Community.....	83
Alicante.....	56
Valencia.....	22
Castellón.....	5
Balearic Islands.....	162
Canary Islands.....	1
Community of Madrid.....	14
Region of Murcia.....	169
Melilla.....	1
TOTAL.....	682

In addition to BMN's branch network, BMN has developed a number of other distribution channels to improve customer service and increase efficiency, including the following:

ATMs. BMN's ATMs allow its customers to conveniently access, through an intuitive interface, a variety of operations, including withdrawals or deposits of cash, recharging their mobile phones, checking balances, paying taxes, activating cards or changing PIN numbers.

Online Banking. BMN has an online banking platform that supports its global strategy and provides a self-service channel for its customers. The two main purposes of its online banking services are to progressively increase its business productivity and reduce branch workload with respect to its most common transactions. BMN's online banking provides several valuable possibilities to its customers, including:

- functional coverage (both for companies and individuals), including use of BMN's corporate website and online banking as well as customer support and service offerings across all channels, including its branch network (e.g. online broker, e-billing, etc.);
- market orientation, including integration of content to assist users, selling from a distance, and personalised offers;
- security, including BMN's expert fraud detection programs and authentication measures; and
- mobility, including BMN's banking applications for smartphones and mobile devices (both IOS and Android), messages to customers (through SMS and email), push messages to IOS devices (replacing SMS messages), other applications for smartphones and tablets and payment options using mobile phones.

Telephone Banking. As a complement to BMN's electronic banking offering, BMN makes telephone banking available 24 hours a day and 365 days a year. BMN's customers can call BMN's representatives and obtain consultations following the same methods BMN offers online.

Administrative, Management and Supervisory Bodies

Composition of the Board of BMN

The Board of Directors of BMN is currently comprised of 11 members. The table below sets forth the names of the members of the Board of Directors of BMN, their position within the Board of Directors and their membership type:

Name of the Director	Position in the Board	Type of Director
Mr Carlos Egea Krauel	Chairman	Executive
Mr Joaquín Cánovas Páez	Managing Director	Executive
Mr Eduardo Aguilar Fernández-Hontoria	Member	Independent
Ms Isabel Aguilera Navarro	Member	Independent
Ms Leticia Iglesias Herráiz	Member	Independent
Mr Manuel Jesús Lagares Calvo ⁽¹⁾	Member	Independent
Mr Álvaro Middelman Blome	Member	Independent
FROB ⁽²⁾	Member	Proprietary
Mr Antonio Jara Andréu	Member	External ⁽³⁾
Mr José Manuel Jódar Martínez	Member	External ⁽⁴⁾
Mr Juan Riusech Roig	Member	Proprietary ⁽⁵⁾

⁽¹⁾ Lead independent director.

⁽²⁾ Represented by Mr Tomás González Peña.

⁽³⁾ Reappointed by the Board of Directors. Initially proposed by Fundación Caja Granada.

⁽⁴⁾ Reappointed by the Board of Directors. Initially proposed by Fundación Caja Murcia.

⁽⁵⁾ Appointed by Fundación Caixa Balears.

The business address for each member of its Board of Directors is Paseo de Recoletos, nº 17, 28004, Madrid, Spain.

The table below sets forth the name of those members of the Board of Directors of BMN with significant activities outside BMN as at the date of this Prospectus.

Name of the Director	Activity outside of BMN
Mr Carlos Egea Krauel	President of Fundación CajaMurcia Secretary of Board of Directors of Confederación Española de Cajas de Ahorro (CECA)
Mr Joaquín Cánovas Páez	President of the Board of Directors of Corporación Empresarial Mare Nostrum, S.L.U Director of CecaBank, S.A. Director of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (CASER)
Mr Eduardo Aguilar Fernández-Hontoria	Director of Operador del Mercado Ibérico de Energía S.A. (OMEL) Director of Capital Radio, S.L.
Ms Isabel Aguilera Navarro	Director of Indra Sistemas, S.A. Director of Egasa XXI, S.A. Director of Oryzon Genomics, S.A.
Ms Leticia Iglesias Herráiz Mr Manuel Jesús Lagares Calvo	Member of the Junta Directiva del Club Empresarial ICADE Director of Consejo Editorial del diario El Mundo Member of the Consejo Económico y Social del Reino de España
Mr Álvaro Middelman Blome	Administrator of Middelman International Marketing Services & Consulting, S.L. Director of APD Islas Baleares Vicepresident of the Chamber of Commerce of Mallorca Sole administrator of Aeronova, S.L.U.

Name of the Director	Activity outside of BMN
Mr Antonio Jara Andréu	President of Fundación Caja General de Ahorros de Granada President of Fundación CajaGranada
Mr José Manuel Jódar Martínez	President of Manuel Jódar Asesores, S.L. Sole Administrator of Joproin, S.L. Sole Administrator of Portus Olea, S.L.
Mr Juan Riusech Roig	Administrator of Riusech Asesores, S.L.

As at the date of this Prospectus, there are no conflicts of interest between the duties of the persons listed above to BMN and their private interests or other duties.

Mr. Alfonso Cárcamo Gil is the Secretary (non-director) of the Board of Directors and Mr. Javier Merino Tembours is the Vice secretary (non-director) of the Board of Directors.

Corporate Governance

The BMN's Board of Directors has implemented a defined and transparent set of rules and regulations for corporate governance, which is compliant with all applicable Spanish corporate governance standards. The Board has delegated some of its powers to the following committees, whose composition as of the date of this Prospectus is also shown.

Position	Appointments and Corporate Governance				
	Executive Committee	Audit Committee	Global Risk Committee	Governance Committee	Remunerations Committee
Chairman	Mr Carlos Egea Krauel	Mr Manuel Jesús Lagares Calvo	Ms Leticia Iglesias Herráiz	Ms Isabel Aguilera Navarro	Ms Isabel Aguilera Navarro
Member	Mr Joaquín Cánovas Páez	Mr Eduardo Aguilar Fernández-Hontoria	Mr Eduardo Aguilar Hontoria	Mr Álvaro Middelmann Blome	Mr Manuel Jesús Lagares Calvo
Member	Ms Isabel Aguilera Navarro	Ms Leticia Iglesias Herráiz	Ms Isabel Aguilera Navarro	FROB	Mr Álvaro Middelmann Blome
Member	Ms Leticia Iglesias Herráiz	FROB	FROB	Mr Antonio Jara Andréu	FROB
Member	Mr Manuel Jesús Lagares Calvo	Mr José Manuel Jódar Martínez	Mr Juan Riusech Roig	Mr José Manuel Jódar Martínez	Mr Juan Riusech Roig
Member	FROB	-	-	-	-
Member	Mr Antonio Jara Andréu	-	-	-	-

Executive Committee

The Board of Directors has delegated all of its powers in favour of the Executive Committee, except for those which cannot be delegated pursuant to the provisions of Spanish law or the Bylaws and the internal regulations. The day-to-day management of BMN is carried out by the Executive Directors and only in the most material matters by the Executive Committee.

Audit Committee

According to the Bylaws and internal regulations of BMN, the powers of the Audit Committee are, among others, to (i) inform the shareholders at the General Shareholders' Meeting, via its Chairman and/or Secretary, on the matters that the shareholders raise at said meeting that fall within the Committee remit; (ii) supervise the financial information and monitoring systems process, the internal audit and the risk management policies and systems, the accounting policies and procedures applicable to BMN and the Group's accounts, overseeing compliance with legal obligations and proper application of the legally established accounting principles; (iii) inform the Board of Directors of any related-party transactions in

advance; (iv) submit proposals for the appointment and, if applicable, revocation or non-renewal, of the external auditor and ensure its independence; (v) supervise the internal audit services; and (vi) supervise compliance with Group Code of Conduct for the Securities Markets, the anti-money laundering manuals and procedures, the manuals on MifID and the Spanish Data Protection Act and, in general, any regulatory provisions, receiving information from the internal monitoring systems and ensuring effective compliance with all of BMN's obligations in this area.

Global Risk Committee

According to the Bylaws and internal regulations of BMN, the powers of the Global Risk Committee are, among others, to (i) advise and make recommendations to the Board of Directors on the current and future global risks to BMN, its strategy to address these risks, to assist the Board in overseeing the application of this strategy by senior management, ensuring that the Group's actions are consistent with the level of risk established previously, and to monitor the appropriateness of the risks assumed with regard to the risk profile established; (ii) examine whether, globally and without this implying a specific analysis of individual operations, the prices of the assets and liabilities offered to clients taking BMN's business model and risk strategy fully into account; (iii) assess and raise to the Board proposals for levels of appetite, early warnings and tolerance limits for each of the risks proposed; (iv) assess the risk policies, the measurement methodologies for each risk and monitoring, assessment and control procedures in each case; (v) inform the Board of Directors on a periodic basis, and at least quarterly, on the situation and risk profile of BMN; (vi) monitor and, if required, report on potential variations of the risk profile that may have an impact on the capital and solvency of BMN; (vii) ascertain, assess and make recommendations on the rating systems based on internal models; (viii) ascertain, assess and make recommendations on the internal capital assessment process; (ix) ascertain, assess and make recommendations on the internal liquidity assessment process; and (x) advise on strategic transactions.

Appointments and Corporate Governance Committee

The Bylaws and internal regulations of BMN provide that the Appointments and Corporate Governance Committee has general powers to propose and report to the Board of Directors about matters regarding appointments and termination of directors and corporate governance issues. The powers of this Committee are, among others, to: (i) inform the Board of Directors of the general policy for appointment of Board members; (ii) prepare and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates; (iii) raise proposals for the appointment of independent directors to the Board of Directors and inform the Board of Directors of proposals for the appointment of the remaining members; (iv) propose the members who are to form part of each of the committees to the board; (v) assess the quality and efficiency of the operation of the Board of Directors on an annual basis; and (vi) provide information on BMN's Corporate Governance policy.

Remunerations Committee

The Bylaws and internal regulations of BMN provide that the Remunerations Committee has general powers to propose and report to the Board of Directors about matters regarding compensation of directors. The powers of this Committee are, among others, to: (i) propose to the Board of Directors the remuneration policy of the directors, the general managers or those who perform senior management functions answering directly to the Board of Directors, and executive committees; (ii) propose to the Board of Directors the individual remuneration and other contract conditions of the executive directors, ensuring compliance therewith; (iii) propose to the Board of Directors the establishment of the basic conditions of the contracts of managers that answer directly to the Board of Directors; (iv) periodically review remuneration programmes; and (v) inform on transactions that imply, or may imply, conflicts of interest and, in general on matters related to the duties of directors.

Organisational Structure

The following table summarises the subsidiaries of the Group and the Issuer's ownership of such companies as at 30 June 2016:

Entity	Activity	Per cent. capital held by the Group
AyT Caja Granada Hipotecario I, Fondo de Titulización de Activos	Securitisation fund	100
AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos	Securitisation fund	100
AyT Colaterales Global Empresas, Fondo de Titulización de Activos	Securitisation fund	100
Gesnostrum Sociedad Gestora, S.L.	Combined office administrative services	100
Sernostrum, S.L.	Financial services auxiliary activities, except insurance and pension funding	100
BMN Brokers Correduría, S.A.	Insurance and pension fund-related activities	100
BMN Mediación Operador de Banca-Seguros Vinculados, S.A.	Insurance and pension fund-related activities	100
Caribbean Fund, S.L.U.	Real estate development	100
Caribbean Funds, LLC	Ancillary financial services activities	100
Caribbean Tower, LLC	Ancillary financial services activities	100
Corporación Mare Nostrum, S.L.U.	Holding of shares	100
Gesmare Sociedad Gestora, S.L. (antes Towsur Hoteles, S.L.)	Combined office administrative services	100
Gestión y Recaudación Local, S.L.	Provision of services to companies	99.74
AyT Caja Murcia Hipotecario I, Fondo de Titulización de Activos	Securitisation fund	100
AyT Caja Murcia Hipotecario II, Fondo de Titulización de Activos	Securitisation fund	100
Innostrum División Inmobiliaria, S.L.	Real estate development	100
Inversiones ProGranada, S.A.	Financial services auxiliary activities, except insurance and pension funding	100
Kevir Inversiones S.L.	Real estate development	100
Sa Nostra Dominicana	Real estate development	100
Summa Seguridad, S.L.	Private security	100
TdA Empresas I Sa Nostra, Fondo de Titulización de Activos	Securitisation fund	100
TdA Empresas II Sa Nostra, Fondo de Titulización de Activos	Securitisation fund	100
Varallo Investments, S.L.U	Real estate development	100
Varallo Resort, S.L.U	Real estate development	100
Varallo Resorts, LLC	Financial services ancillary activities	100
Vector Capital, S.L.	Administrative management and advisory services	100
Viajes BMN, S.L.	Travel agency and tourism operator activities	100
Viajes Cajamurcia, S.A.	Travel agency and tourism operator activities	80
AyT ICO-FTVPO Caja Murcia, FTA	Securitisation fund	100

The following table summarises the jointly-controlled entities of the Group and the Issuer's ownership of such companies as at 30 June 2016:

Entity	Activity	Per cent. Capital held by the Group
Arte Benicarló, S.L.	Real estate dealing on its own behalf	50
Berga Centre, S.L.	Real estate dealing on its own behalf	50
Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A.	Insurance agency	50

Entity	Activity	Per cent. Capital held by the Group
Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.U.	Life insurance and reinsurance	50
Cartera Perseidas, S.L.	Holding of shares	11
Gamma Desarrollos Comerciales, S.L.	Real estate development	50
Guardamar Club Resson, S.L.	Real estate development	50
Kandor Graphics, S.L.	Filmmaking and production	16.27
Maresum Promociones, S.L.	Real estate development	45
Nueva Marina Real State, S.L.	Construction	20
Promociones y Proyectos Murcilor, S.L.	Real estate development	50
Puertas de Lorca Desarrollos Empresariales, S.L.	Real estate development	45
Segona Corona Inmobiliaria, S.L.	Real estate dealing on its own behalf	50
S'Estel Nou Palma, S.L.	Real estate development	45.03
Sol Edificat Ponent, S.L.	Real estate dealing on its own behalf	50
Wellness Sport Club	Sport and leisure	50

The following table summarises the associates of the Group and the Issuer's ownership of such companies as at 30 June 2016:

Entity	Activity	Per cent. capital held by the Group
Ahorro Gestión Inmuebles, S.L.	Financial investments	28.85
Cartagena Joven, S.L.	Real estate development	30
Casas del Mar Levante, S.L.	Real estate development	33.33
Cotton South, S.L.	Paper industry	30
Falstacen, S.L.	Hotel operations	24.10
Information Technology Nostrum, S.L.	Technological projects	9.97
Juwigolf, S.A	Real estate development	41.01
Maretra, S.L.	Combined administrative services	5
Monteblanco Desarrollo Inmobiliario, S.L.	Real estate development	35
Mural Estadio, S.L.	Real estate development	48
Nueva Vivienda Joven de Murcia, S.L.	Real estate development	49.89
Orbi Mediterránea, S.L.	Real estate development	47.14
Parque Tecnológico Fuente Álamo, S.A.	Development and construction	22.54
Playa Caribe Holding I B.V.	Hotels and similar accommodations	20
Prossan Desarrollos Empresariales, S.L.	Real estate development	42.44
Riviera 2012, S.L.	Real estate development	33
Urbanizadora Marina Cope, S.L.	Real estate development	20
Urbano Divertia, S.L.	Real estate development	25

Capital Structure

As of 30 June 2016, BMN's issued share capital of €1,613,653,104 comprised 1,613,653,104 ordinary shares of a single class, with a nominal value per ordinary share of €1. BMN's issued share capital as of the date of this Prospectus is €1,613,653,104 represented by 1,613,653,104 shares.

In November 2011, BMN issued mandatory convertible bonds to institutional investors in the amount of €242 million. These bonds converted into ordinary shares in February 2013, along with the PPCs which had been issued to the FROB on 29 June 2010. As a result of this and the subscription by the FROB of €730 million of capital through bonds issues by the ESM, the FROB became BMN's majority shareholder and currently controls all decisions requiring approval by a majority of its shareholders, including election of the majority of BMN's Board of Directors, increases and reductions in its share capital, and changes to its bylaws.

The table below sets out to the beneficial ownership of BMN's shares:

	Number of shares beneficially owned	Per cent.
Fondo de Reestructuración Ordenada Bancaria (FROB)	1,049,311,038	65.03
Founding Entities		
Fundación Caja de Ahorros de Murcia (formerly Caja de Ahorros de Murcia)	102,500,164	6.35
Fundación Pinnae (formerly Caixa Penedès)	70,000,112	4.34
Fundación Caja General de Ahorros de Granada (formerly Caja General de Ahorros de Granada)	45,000,072	2.79
Fundación Caja de Baleares (formerly Caja de Ahorros y Monte de Piedad de las Baleares)	32,500,052	2.01
Other shareholders	312,00,790	19.33
Shares held by BMN	2,340,876	0.15
TOTAL	1,613,653,104	100

Save as described in "*Recent Developments*", as of the date of this Prospectus, BMN is not aware of any arrangement which may result in a change of control in BMN.

Legal and Other Proceedings

The nature of BMN's business causes BMN to be involved in routine legal and other proceedings from time to time. Other than as described below, none of the entities of the Group is involved in any litigation or other proceedings which, in BMN's judgement, could have a material impact on its financial condition or its business activities.

Interest rate floor clauses proceedings

BMN has included interest rate floor clauses in certain specific assets transactions with its customers. In 2013 the Supreme Court of Spain ruled that interest rate floor clauses of certain Spanish banks (but not BMN) were null and void because the clauses were not clearly and transparently explained. A separate case was brought before the courts of Madrid by the consumer group ADICAE on behalf of a group of holders of interest rate floor mortgages at a number of Spanish banks (including BMN).

On 7 April 2016, the Mercantile Court in Madrid ruled in the ADICAE proceedings that interest rate floor clauses contained within the general conditions of consumer mortgage contracts were void due to lack of transparency. The affected banks (including BMN) were thus obliged to (i) remove such clauses from all such contracts, (ii) stop using such clauses unless clearly and transparently explained to the relevant consumer, and (iii) reimburse affected customers for amounts that they overpaid as a result of such clauses, together with any interest in accordance with applicable law, from 9 May 2013 (the date of publication of the Supreme Court judgment in the original proceedings).

On 13 July 2016 the European Court of Justice's Advocate General issued a written, non-binding opinion in which he concluded that Spanish banks should not be forced to reimburse consumers for years of excess mortgage charges imposed before the 2013 ruling by the Spanish Supreme Court. A final ruling of the European Court of Justice on this question is expected to be given before the end of 2016.

Based on the outstanding balance at 30 June 2016 of the Issuer's mortgage loans with interest rate floor clauses, the Issuer estimates that should the European Court of Justice conclude that the banks should each reimburse affected consumers retroactive to the starting date of the relevant loan it could be required to make an aggregate reimbursement of approximately €45 million. If, however, the European Court of Justice concurs with the opinion of the Advocate General, and reimbursement is retroactive to 9 May 2013 only, then the Issuer estimates that the total amount of any such reimbursement required to be paid by it would amount to approximately €28 million. The Issuer has taken provisions in the amount of €34 million to prepare for this contingency. See "*BMN is subject to continuing uncertainties regarding the validity of interest rate floor clauses.*".

Notification by the Tax Agency of Andalusia

Finally, BMN has recently been given notification by the *Agencia Tributaria de Andalucía* (Tax Agency of Andalusia) in relation to a breach concerning the declaration in the fiscal year 2012 in respect of the *Impuesto sobre Depósitos de Clientes en Entidades de Crédito en Andalucía* (Tax on Customer Deposits in Credit Institutions of Andalusia), with an expected economic impact of €20.3 million. As at the date of this Prospectus, BMN is intending to appeal this tax claim.

Credit Rating

On 4 May 2016 the rating agency Fitch Ratings reaffirmed the entity's long-term rating at "BB", maintaining a stable outlook, while it maintained the Viability Rating (VR) at "bb".

Overview Financial Information

Financial Information as at, and for the period ended, 31 December 2015 and 2014

The table below includes the consolidated balance sheets of the Issuer as at 31 December 2015 and 2014:

ASSETS	Thousands of euro		
	2015	2014	Variation %
Cash and balances with central banks	455,235	323,795	40.59%
Held for trading	70,495	212,211	(66.78%)
Loans and advances to credit institutions	-	-	-
Loans and advances to customers	-	-	-
Debt securities	-	-	-
Equity instruments	95	809	(88.26%)
Trading derivatives	70,400	211,402	(66.70%)
<i>Memorandum item: Loaned or advanced as collateral</i>	-	-	-
Other financial assets at fair value through profit or loss	-	-	-
Loans and advances to credit institutions	-	-	-
Loans and advances to customers	-	-	-
Debt securities	-	-	-
Equity instruments	-	-	-
<i>Memorandum item: Loaned or advanced as collateral</i>	-	-	-
Available-for-sale financial assets	5,070,480	5,988,754	(15.33%)
Debt securities	4,646,563	5,385,597	(13.72%)
Equity instruments	423,917	603,157	(29.72%)
<i>Memorandum item: Loaned or advanced as collateral</i>	<i>2,103,577</i>	<i>2,092,841</i>	<i>0.51%</i>

Loans and receivables	29,983,234	32,274,761	(7.10%)
Loans and advances to credit institutions	1,098,213	1,024,688	7.18%
Loans and advances to customers	22,273,079	23,538,143	(5.37%)
Debt securities	6,611,942	7,711,930	(14.26%)
<i>Memorandum item: Loaned or advanced as collateral (**)</i>	9,262,800	8,952,226	3.47%
Held-to-maturity investments	-	-	-
<i>Memorandum item: Loaned or advanced as collateral</i>	-	-	-
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	32,597	239,353	(86.38%)
Hedging derivatives	81,872	16,479	396.83%
Non-current assets held for sale	978,591	712,267	37.39%
Investments	118,891	161,117	(26.21%)
Associates	45,604	61,459	(25.80%)
Jointly-controlled entities	73,287	99,658	(26.46%)
Insurance contracts linked to pensions	-	-	-
Reinsurance assets	-	-	-
Tangible assets	1,161,130	1,069,862	8.53%
Property, plant and equipment	648,942	670,394	(3.20%)
Property, plant and equipment for own use	648,942	664,902	(2.40%)
Leased out under an operating lease	-	5,492	(100.00%)
Assigned to welfare projects	-	-	-
Investment property	512,188	399,468	28.22%
<i>Memorandum item: Acquired under a finance lease</i>	-	-	-
Intangible assets	122,100	108,694	12.33%
Goodwill	-	-	-
Other intangible assets	122,100	108,694	12.33%
Tax assets	2,335,825	2,288,964	2.05%
Current	84,337	67,890	24.23%
Deferred	2,251,488	2,221,074	1.37%
Other assets	383,770	438,277	(12.44%)
Inventories	146,010	194,894	(25.08%)
Other	237,760	243,383	(2.31%)
TOTAL ASSETS	40,794,220	43,834,534	(6.94%)

LIABILITIES	Thousands of euro		
	2015	2014	Variation %
Held for trading			
Deposits from central banks	75,602	211,289	(64.22%)
Deposits from credit institutions	-	-	-
Customer deposits	-	-	-
Marketable debt securities	-	-	-
Trading derivatives	75,602	211,289	(64.22%)
Short positions	-	-	-
Other financial liabilities	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-
Deposits from central banks	-	-	-
Deposits from credit institutions	-	-	-
Customer deposits	-	-	-
Marketable debt securities	-	-	-
Subordinated liabilities	-	-	-
Other financial liabilities	-	-	-
Financial liabilities at amortised cost	37,920,477	40,231,491	(5.74%)
Deposits from central banks	4,234,134	3,845,377	10.11%
Deposits from credit institutions	2,132,728	2,088,898	2.10%
Customer deposits	30,639,215	32,727,509	(6.38%)
Marketable debt securities	671,294	1,269,055	(47.10%)
Subordinated liabilities	-	-	-
Other financial liabilities	243,106	300,652	(19.14%)
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	124,656	339,510	(63.28%)
Liabilities associated with non-current assets held for sale	1,329	50	2558.00%
Liabilities under insurance contracts	-	-	-
Provisions	118,763	133,683	(11.16%)
Provisions for pensions and similar obligations	49,996	52,101	(4.04%)
Provisions for taxes and legal contingencies	34,762	37,599	(7.55%)
Provisions for contingent liabilities and commitments	7,448	10,688	(30.31%)
Other provisions	26,557	33,295	(20.24%)
Tax liabilities	151,016	282,292	(46.50%)
Current	3,966	9,103	(56.43%)
Deferred	147,050	273,189	(46.17%)
Other liabilities	167,954	179,740	(6.56%)
TOTAL LIABILITIES	38,559,797	41,378,055	(6.81%)

EQUITY	Thousands of euro		
	2015	2014	Variation %
Shareholders' equity	2,197,521	2,146,338	2.38%
Capital or endowment fund	1,613,653	1,613,653	-
Issued capital	1,613,653	1,613,653	-
Less: Uncalled capital	-	-	-
Share Premium	-	478,624	(100.00%)
Reserves	522,473	(45,147)	(1257.27%)
Accumulated reserves (losses)	656,894	60,941	977.92%
Reserves (losses) of entities accounted for using the equity method	(134,421)	(106,088)	26.71%
Other equity instruments	-	-	-
Equity component of compound financial instruments	-	-	-
Non-voting equity units and associated funds	-	-	-
Other equity instruments	-	-	-
Less: Treasury shares	2,933	2,524	16.20%
Profit/(loss) for the year attributable to the Parent	64,328	101,732	(36.77%)
Less: Dividends and remuneration	-	-	-
Valuation adjustments	37,283	310,027	(87.97%)
Available-for-sale financial assets	15,046	267,244	(94.37%)
Cash flow hedges	29,797	34,123	(12.68%)
Hedges of net investments in foreign operations	-	-	-
Exchange differences	2,179	1,280	70.23%
Non-current assets held for sale	-	-	-
Entities accounted for using the equity method	9,005	15,825	(43.10%)
Other valuation adjustments	(18,744)	(8,445)	121.95%
Non-controlling interests	(381)	114	(434.21%)
Valuation adjustments	2	-	-
Other	(383)	114	(435.96%)
TOTAL EQUITY	2,234,423	2,456,479	(9.04%)
TOTAL LIABILITIES AND EQUITY	40,794,220	43,834,534	(6.94%)
MEMORANDUM ITEMS			
Contingent liabilities	714,294	705,301	1.28%
Contingent commitments	1,047,445	1,265,570	(17.24%)

At 31 December 2015, total assets managed by the Group amounted to €40,794,220 thousand, which represents a 6.9 per cent. reduction compared to 31 December 2014. With respect to the evolution of the primary figures on the asset side of the consolidated balance sheet, loans (€29,983,234 thousand at 31 December 2015) represented 73.5 per cent. of total assets, a reduction of 7.1 per cent. compared to 31 December 2014 due to a decline in loans and advances to customers and debt securities (which include the bonds issued by SAREB and the retained multi-issuer covered bonds).

Despite the decline in the customer loan balance to €2,273,079 thousand, new loans in excess of €3,084,000 thousand were granted as at 31 December 2015, which is an increase of around 40 per cent. since 31 December 2014.

The 14.3 per cent. decline in debt securities to €6,611,942 thousand as at 31 December 2015 since 31 December 2014 was mainly due to the amortisation of multi-issuer covered bonds retained as collateral.

Available-for-sale financial assets amounted to €5,070,480 thousand as at 31 December 2015, which represents a decline of 15.3 per cent. since 31 December 2014 mainly due to the maturity of the bonds issued by the ESM and, to a lesser extent, the reduction in equity instruments.

Adjustments to financial assets due to macro-hedges saw a decline in its balance to €2,597 thousand at 31 December 2015 since 31 December 2014, which relates to the balance of active macro-hedge transactions. The amount of macro-hedges interrupted early which totalled €15 million at 31 December 2015, was reclassified as an increase in the portfolio of hedged mortgage transactions.

As part of the process of adjusting the Group's portfolio within the framework of the Restructuring Plan, shareholdings totalled €18,891 thousand at 31 December 2015 which is an annual reduction of 26.2 per cent.

The liabilities side of the consolidated balance sheet reflected a figure of €38,559,797 thousand as at 31 December 2015, which is 6.8 per cent. lower than at 31 December 2014. The primary conditioning factor was the reduction in financial liabilities at amortised cost (which represented 98.3 per cent. of total liabilities at 31 December 2015) by €2,311,014 thousand, to €37,920,477 thousand at 31 December 2015.

At 31 December 2015, financial liabilities at amortized cost included: customer deposits (€30,639,215 thousand), central bank deposits (€4,234,134 thousand), credit institution deposits (€2,132,728 thousand) and debits represented by marketable securities (€71,294 thousand).

Customer deposits were affected by the maturity of €1,749,471 thousand in mortgage bonds and central bank deposits (all targeted long term refinancing operations ("TLTRO")) were affected by the maturity of three-year ECB financing in the amount of €3,057,260 thousand.

While credit institution deposits increased by 2.1 per cent. since 31 December 2014, the debits represented by marketable securities fell by 47.1 per cent. at 31 December 2015 since 31 December 2014, primarily due to the maturity of secured debt in a nominal amount of €587,000 thousand.

Consolidated equity was €2,234,423 thousand as at 31 December 2015, and was influenced by the decrease in the amount of the valuation adjustments applied to the available-for-sale portfolio as a result of the increase in the portfolio's fair value and the sales that took place.

The reclassification of the share premium to be applied to reserves in the amount of €478,624 thousand was a notable result of the agreement adopted by shareholders at a General Meeting held on 26 June 2015. The number of treasury shares held by BMN and its subsidiaries amounted to 2,184,230 shares (representing 0.14 per cent. of share capital), with carrying and nominal amounts of €2,933 thousand and €2,184 thousand, respectively.

The table below includes the consolidated income statements of the Issuer for the years ended 31 December 2015 and 2014:

	Thousands of euro		
	2015	2014	Variation %
Interest and similar income	863,401	1,187,969	(27.32%)
Interest expense and similar charges	398,925	624,552	(36.13%)
Remuneration of capital having the nature of a financial liability	-	-	-
NET INTEREST INCOME	464,476	563,417	(17.56%)
Income from equity instruments	20,315	14,954	35.85%
Results of entities accounted for using the equity method	6,256	(6,023)	(203.87%)
Fee and commission income	224,839	247,949	(9.32%)
Fee and commission expense	27,512	31,606	(12.95%)
Gains/(losses) on financial assets and liabilities (net)	342,678	453,856	(24.50%)
Held for trading	29,514	3,906	655.61%
Other financial instruments measured at fair value through profit or loss	-	-	-
Financial instruments not measured at fair value through profit or loss	313,041	450,444	(30.50%)
Other	123	(494)	(124.90%)
Exchange differences (net)	(524)	(4,292)	(87.79%)
Other operating income	24,711	55,792	(55.71%)
Income from insurance and reinsurance contracts issued	-	-	-
Sales and income from the provision of non-financial services	3,902	2,965	31.60%
Other operating income	20,809	52,827	(60.61%)
Other operating expenses	50,853	78,537	(35.25%)
Expenses of insurance and reinsurance contracts	-	-	-
Change in inventories	117	293	(60.07%)
Other operating expenses	50,736	78,244	(35.16%)
GROSS INCOME	1,004,386	1,215,510	(17.37%)
Administrative expenses	387,993	390,411	(0.62%)
Staff costs	261,719	239,514	9.27%
Other general administrative expenses	126,274	150,897	(16.32%)
Depreciation and amortisation	28,733	28,246	1.72%
Provisions (net)	(947)	9,559	(109.91%)
Impairment losses on financial assets (net)	443,349	547,799	(19.07%)
Loans and receivables	423,875	498,240	(14.93%)
Other financial instruments not measured at fair value through profit or loss	19,474	49,559	(60.71%)

OPERATING PROFIT/(LOSS)	145,258	239,495	(39.35%)
Impairment losses on other assets (net)	46,725	22,482	107.83%
Goodwill and other intangible assets	10,168	1,732	487.07%
Other assets	36,557	20,750	76.18%
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	24,748	37,482	(33.97%)
Negative goodwill on business combinations	-	-	-
Gains/(losses) on disposal of non-current assets held for sale not classified as discontinued operations	(108,393)	(111,806)	(3.05%)
PROFIT/(LOSS) BEFORE TAX	14,888	142,689	(89.57%)
Income tax	(49,518)	41,332	(219.81%)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	64,406	101,357	(36.46%)
Profit/(loss) from discontinued operations (net)	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	64,406	101,357	(36.46%)
Profit/(loss) attributable to the Parent	64,328	101,732	(36.77%)
Profit/(loss) attributable to non-controlling interests	78	(375)	(120.80%)

The Group's interest margin for the year ended 31 December 2015 was €464,476 thousand, which is 17.6 per cent. less than for the year ended 31 December 2014, primarily as a result of the performance of the interest rate curve, the sale of the fixed-income portfolio at a profit and the review of the rate for the bonds issued by SAREB. Net fees fell to €197,327 thousand for the year ended 31 December 2015.

The sale of debt securities, mainly Spanish government debt, with a nominal value of €2,751,464 thousand, for which a profit of €275,727 thousand was obtained, allowed a net gain on financial assets and liabilities of €342,678 thousand to be obtained for the year ended 31 December 2015.

The gross margin amounted to €1,004,386 thousand at 31 December 2015 and operating expenses declined by 0.5 per cent. compared to the year ended 31 December 2014, which facilitated BMN in obtaining an efficiency ratio of 41.5 per cent.

As a result of the aforementioned changes, and despite the lower impairment losses on financial assets (19.1 per cent. less than the year ended 31 December 2014 due to the containment of defaults), the operating profit was €145,258 thousand for the year ended 31 December 2015.

Finally, impairment losses on the rest of the assets, the gains on the disposal of assets not classified as non-current assets held for sale and the losses on non-current assets held for sale not classified as discontinued operations, brought the Group's attributed profit to €64,328 thousand for the year ended 31 December 2015, after the application of €49,518 thousand in income tax.

Financial Information as at, and for the period ended, 30 June 2016

Provided below is financial consolidated information of BMN as at, and for the period ended, 30 June 2016. In 2016 BMN adapted the presentation of its financial information to Bank of Spain Circular 5/2014 and to CNMV Circular 5/2015 and, therefore, the model balance sheet and income statement as at, and for the period ended, 30 June 2016, follow the format of presentation established by such regulations. Financial information as at 31 December 2015 and 30 June 2015 included, for comparative purposes only, in the tables below differs from that included in the consolidated annual accounts for the year ended 31 December 2015 of BMN and in the interim condensed consolidated financial statements for the six-month period ended 30 June 2015 of BMN.

The table below includes the consolidated balance sheet of the Issuer as at 30 June 2016 compared to 31 December 2015:

ASSETS	Thousands of euro		
	30/06/2016 ^(*)	31/12/2015 ^(*)	Variation %
Cash, cash balances at central banks and other demand deposits	601,378	625,487	(3.85%)
Financial assets held for trading	66,689	70,495	(5.40%)
<i>Memorandum items, lent or delivered as guarantee with disposal or pledge rights</i>	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-
<i>Memorandum items, lent or delivered as guarantee with disposal or pledge rights</i>	-	-	-
Available-for-sale financial assets	5,676,405	5,070,480	11.95%
<i>Memorandum items, lent or delivered as guarantee with disposal or pledge rights</i>	2,636,360	2,103,577	25.33%
Loans and receivables	28,998,326	29,812,982	(2.73%)
<i>Memorandum items, lent or delivered as guarantee with disposal or pledge rights</i>	2,208,853	1,891,414	16.78%
Held-to-maturity investments	-	-	-
<i>Memorandum items, lent or delivered as guarantee with disposal or pledge rights</i>	-	-	-
Derivatives – Hedge accounting	199,623	81,872	143.82%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	53,676	32,597	64.67%
Investments in subsidiaries, joint ventures and associates	100,531	118,891	(15.44%)
Associated companies	54,539	73,287	(25.58%)
Controlled companies	45,992	45,604	0.85%
Reinsurance assets	-	-	-
Tangible assets	1,229,833	1,161,130	5.92%
Property, plant and equipment	639,050	648,942	(1.52%)
<i>For own-use</i>	639,050	648,942	(1.52%)
<i>Leased out under an operating lease</i>	-	-	-
Investment property	590,783	512,188	15.34%
<i>Of which Leased out under an operating lease</i>	347,967	328,499	5.93%
<i>Memorandum items: acquired in financial lease</i>	-	-	-

Intangible assets	124,192	122,100	1.71%
Goodwill	-	-	-
Other intangible assets	124,192	122,100	1.71%
Tax assets	2,286,859	2,335,825	(2.10%)
Current tax assets	39,889	84,337	(52.70%)
Deferred tax assets	2,246,970	2,251,488	(0.20%)
Other assets	341,931	383,770	(10.90%)
Insurance contracts linked to pensions	-	-	-
Inventories	129,626	146,010	(11.22%)
Other	212,305	237,760	(10.71%)
Non-current assets and disposal groups classified as held for sale	964,432	978,591	(1.45%)
TOTAL ASSETS	40,643,875	40,794,220	(0.37%)

(*) Unaudited financial information.

(*)(*) Included for comparative purposes only.

LIABILITIES	Thousands of euro		
	30/06/2016 ^(*)	31/12/2015 ^(*)	Variation %
Financial liabilities held for trading	70,446	75,602	(6.82%)
Financial liabilities designated at fair value through profit or loss	-	-	-
<i>Memorandum items: subordinated liabilities</i>	-	-	-
Financial liabilities measured at amortised cost	37,637,742	37,920,477	(0.75%)
<i>Memorandum items: subordinated liabilities</i>	-	-	-
Derivatives – Hedge accounting	237,335	124,656	90.39%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities under insurance contract	-	-	-
Provisions	115,730	118,763	(2.55%)
Pensions and other post employment defined benefit obligations	18,994	18,824	0.90%
Other long term employee benefits	26,576	31,172	(14.74%)
Taxes and other legal contingencies	34,377	34,762	(1.11%)
Contingent liabilities and commitments	9,100	7,448	22.18%
Other provisions	26,683	26,557	0.47%
Tax liabilities	159,782	151,016	5.80%
Current tax liabilities	5,588	3,966	40.90%
Deferred tax liabilities	154,194	147,050	4.86%
Other liabilities	144,219	167,954	(14.13%)
Liabilities included in disposal groups classified as held for sale	1,013	1,329	(23.78%)
TOTAL LIABILITIES	38,366,267	38,559,797	(0.50%)

(*) Unaudited financial information.

(*)(*) Included for comparative purposes only.

EQUITY	Thousands of euro		
	30/06/2016 ^(*)	31/12/2015 ^(*)	Variation %
Shareholder's equity	2,222,744	2,197,521	1.15%
Capital	1,613,653	1,613,653	-
<i>Called up unpaid capital</i>	1,613,653	1,613,653	-
<i>Unpaid capital which has been called up</i>	-	-	-
<i>Memorandum items: uncalled up capital</i>	-	-	-
Share premium	-	-	-
Equity instruments issued other than capital	-	-	-
<i>Equity component of compound financial instruments</i>	-	-	-
<i>Other equity instruments issued</i>	-	-	-
Other equity	-	-	-
Retained earnings	-	-	-
Revaluation reserves	-	-	-
Other reserves	580,481	522,473	11.10%
(-) Own shares	3,143	2,933	7.16%
Profit attributable to owners of the parent	31,753	64,328	(50.64%)
(-) Interim dividends	-	-	-
Accumulated other comprehensive income	55,239	37,283	48.16%
Items that will not be reclassified to profit or loss	(28,630)	(26,698)	7.24%
<i>Actuarial gains or (-) losses on defined benefit pension plans</i>	(18,744)	(18,744)	-
<i>Non-current assets and disposal groups classified as held for sale</i>	-	-	-
<i>Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates</i>	(9,886)	(7,954)	24.29%
<i>Other valuation adjustments</i>	-	-	-
Items that may be reclassified to profit or loss	83,869	63,981	31.08%
<i>Hedge of net investments in foreign operations (Effective portion)</i>	-	-	-
<i>Foreign currency translation</i>	1,845	2,179	(15.33%)
<i>Hedging derivatives, Cash flow hedges (Effective portion)</i>	83,601	29,797	180.57%
<i>Available-for-sale financial assets</i>	(18,173)	15,046	(220.78%)
<i>Debt instruments</i>	11,802	39,491	(70.11%)
<i>Equity instruments</i>	(29,975)	(24,445)	22.62%
<i>Non-current assets and disposal groups classified as held for sale</i>	-	-	-
<i>Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates</i>	16,596	16,959	(2.14%)
Minority interests (Non-controlling interests)	(375)	(381)	(1.57%)
Accumulated Other Comprehensive Income	2	2	-
Other items	(377)	(383)	(1.57%)
TOTAL EQUITY	2,277,608	2,234,423	1.93%

TOTAL EQUITY AND TOTAL LIABILITIES	40,643,875	40,794,220	(0.37%)
MEMORANDUM ITEMS			
Contingent liabilities	664,107	714,294	(7.03%)
Contingent commitments	1,106,609	1,047,445	5.65%

(*) Unaudited financial information.

(*)(*) Included for comparative purposes only..

At 30 June 2016, total assets managed by the Group amounted to €40,643,875 thousand, which is a 0.4 per cent. reduction compared to 31 December 2015. Loans and receivables (which represented 71.3 per cent. of total assets at €28,998,326 thousand at 31 December 2015), had declined by 2.7 per cent. at 30 June 2016.

Loans and advance payments to credit institutions fell to €283,582 thousand at 30 June 2016 (69.4 per cent. of total assets), mainly due to the decline in assets acquired under repurchase agreements.

Loans and customer credit facilities totalled €22,418,065 thousand at 30 June 2016, an increase of 0.7 per cent. (€144,986 thousand) compared to 31 December 2015 as a result of the granting of new loans. These new loans increased by 14 per cent. compared to the same period in 2015, amounting to over €1,720,000 thousand.

Finally, the 4.8 per cent. decline to €6,296,679 thousand in debt securities at 30 June 2016 was mainly due to the amortisation of multi-issuer covered bonds retained as collateral.

Financial assets available-for-sale presented a balance of €5,676,405 at 30 June 2016 and a 12 per cent. increase since 31 December 2015, mainly due to the 13.1 per cent. increase in debt securities primarily as a result of transactions involving Spanish government debt.

Hedge accounting derivatives increased to €199,623 thousand at 30 June 2016 as a result of new transactions and an increase in their fair value due to the evolution of interest rates.

As part of the process of adjusting the Group's portfolio, investments in joint operations and associates totalled €100,531 thousand at 30 June 2016, which is a reduction of 15.4 per cent. since 31 December 2015. Non-current assets and disposable groups which have been classified as held-for-sale, declined by €14,159 thousand since 31 December 2015 to €64,432 thousand at 30 June 2016.

Liabilities in the condensed consolidated balance sheet totalled €38,366,267 thousand at 30 June 2016, which is a 0.5 per cent. decline compared to 31 December 2015, caused primarily by the reduction in financial liabilities at amortized cost. These represented 98.1 per cent. of total liabilities and it fell by 0.7 per cent. compared to 31 December 2015, to €37,637,742 thousand at 30 June 2016.

At 30 June 2016, financial liabilities at amortized cost included: customer deposits (€30,135,562 thousand), central bank deposits (€4,232,854 thousand), credit institution deposits (€2,343,956 thousand) and debt securities (€36,825 thousand).

Customer deposits declined by €303,653 thousand at 30 June 2016 as a result of the decline in wholesale financing, mainly due to the maturity of €1,083,148 thousand in mortgage bonds.

After discounting the wholesale balances relating to multi-issuer bonds, issued securities and assets acquired under repurchase agreements, retail deposits remained stable while the equity in marketed investment funds rose by €17,062 thousand at 30 June 2016 compared to 31 December 2015.

Deposits at central banks (TLTRO in their entirety) showed virtually no change at 30 June 2016 compared to 31 December 2015, while credit institution deposits increased by 9.9 per cent. at 30 June 2016 compared to 31 December 2015. Finally, debt securities issued fell by €34,469 thousand at 30 June 2016 (a decline of 5.1 per cent.) compared to 31 December 2015, mainly due to the maturity of secured debt and mortgage transfer certificates that are recognised under this heading.

Equity increased by 1.9 per cent. to €2,277,608 at 30 June 2016 compared to 31 December 2015, mainly as a result of the profits earned during the half-year period, (€1,752 thousand) and the positive development of "Other accumulated comprehensive results from items that may be reclassified to profit or loss" which increased by €19,888 thousand to €33,869 thousand at 30 June 2016 compared to 31 December 2015.

At 30 June 2016, the number of treasury shares held by BMN and its subsidiaries amounted to 2,340,876 shares (representing 0.15 per cent. of share capital), with carrying and nominal amounts of €3,143 thousand and €2,341 thousand, respectively.

The table below includes the consolidated income statement of the Issuer for the Issuer as at 30 June 2016 compared to 30 June 2015:

	Thousands of euro		
	30/06/2016 ^(*)	30/06/2015 ^(*)	Variation %
Interest income	327,826	470,236	(30.28%)
Interest expenses	128,597	220,503	(41.68%)
NET INTEREST INCOME	199,229	249,733	(20.22%)
Dividend income	3,185	9,761	(67.37%)
Share of results of entities accounted for using the equity method	(5,803)	3,285	(276.65%)
Fee and commission income	116,343	117,805	(1.24%)
Fee and commission expenses	9,537	16,717	(42.95%)
Gain or losses on derecognition financial assets and liabilities not measured at fair value through profit or loss, net	92,798	124,101	(25.22%)
Gain or losses on financial assets and liabilities held for trading, net	1,404	27,439	(94.88%)
Gain or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-
Gain or losses from hedge accounting, net	33	70	(52.86%)
Exchange differences, net	1,442	(975)	(247.90%)
Other operating income	18,365	12,771	43.80%
Other operating expenses	30,678	8,796	248.77%
Income from assets under insurance and reinsurance contracts	-	-	-
Expenses from liabilities under insurance and reinsurance contracts	-	-	-
GROSS INCOME	386,781	518,477	(25.40%)
Administrative expenses	173,785	189,780	(8.43%)
<i>Staff expenses</i>	129,498	132,884	(2.55%)
<i>Other administrative expenses</i>	44,287	56,896	(22.16%)
Depreciation	17,384	14,632	18.81%
Provisions or (-) reversal of provisions	10,679	20,661	(48.31%)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	99,495	176,558	(43.65%)
<i>Financial assets measured at cost</i>	413	4,411	(90.64%)
<i>Available-for-sale financial assets</i>	(135)	3,777	(103.57%)

<i>Loans and receivables</i>	99,217	168,370	(41.07%)
<i>Held-to-maturity investments</i>	-	-	-
PROFIT FROM OPERATIONS	85,438	116,846	(26.88%)
Impairment of investments in subsidiaries, joint ventures and associates, net	-	-	-
Impairment on non-financial assets, net	15,312	17,972	(14.80%)
<i>Tangible assets</i>	8,460	9,342	(9.44%)
<i>Intangible assets</i>	1,624	68	2288.24%
<i>Others</i>	5,228	8,562	(38.94%)
Gain or losses on non financial assets and investments, net	1,247	(5,187)	(124.04%)
Negative goodwill recognized in profit or loss	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(35,959)	(43,440)	(17.22%)
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	35,414	50,247	(29.52%)
Tax expense or income from continuing operations	(3,662)	(8,192)	(55.30%)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	31,752	42,055	(24.50%)
Profit or loss after tax from discontinued operations	-	-	-
PROFIT FOR THE YEAR	31,752	42,055	(24.50%)
Profit attributable to non-controlling interests	(1)	75	(101.33%)
Profit attributable to owners of the parent	31,753	41,980	(24.36%)
EARNINGS PER SHARE			
Basic	0.020	0.026	(23.08%)
Diluted	0.020	0.026	(23.08%)

(*) Unaudited financial information.

(*)(*) Included for comparative purposes only.

The Group's interest margin for the six months ended 30 June 2016 was €199,229 thousand and it was mainly affected by the historically low interest rate situation, the evolution of the fixed income portfolio and the revision of the rate paid for the bonds issued by SAREB. Net fees increased to €106,806 thousand for the six months ended 30 June 2016, which is 5.7 per cent. higher than the six months ended 30 June 2015.

The sale of debt securities, primarily Spanish Government Debt, for a nominal amount of €3,050,210 thousand on which a profit of €79,933 thousand was obtained, is recognised in the heading "Gain or losses on derecognition financial assets and liabilities not measured at fair value through profit or loss, net" which totals €2,798 thousand for the six months ended 30 June 2016.

Total operating income was €386,781 thousand for the six months ended 30 June 2016 and operating expenses declined by 6.5 per cent. compared to the six months ended 30 June 2015 which facilitated BMN in obtaining an efficiency ratio of 49.4 per cent.

As a result of the aforementioned changes, and the impairment losses on loans and receivables (41.1 per cent. less than for the six months ended 30 June 2015 due to the containment of defaults and the recoveries made), the operating profit was €85,438 thousand for the six months ended 30 June 2016.

Impairment of non-financial assets, net gains on non financial assets and investments and losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, led to profit for the six months ended 30 June 2016 of €31,752 thousand, after income tax applied to the profits on continuing operations totalling €3,662 thousand.

Alternative Performance Measures

This Prospectus (and documents incorporated by reference to this Prospectus) contains metrics that constitute Alternative Performance Measures ("APMs") as defined in the European Securities and Markets Authority Guidelines introduced on 3 July 2016 (the "ESMA Guidelines"). BMN considers that these metrics provide useful information for investors, securities analysts and other interested parties in order to better understand the underlying business, the financial position, cash flows and the results of operations of BMN.

These APMs are not audited and are not measures required, or presented in accordance with, IFRS-EU. Accordingly, these APMs should not be considered substitutes to the information contained in the audited consolidated annual accounts of BMN or to the financial consolidated information of BMN as at, and for the period ended, 30 June 2016 incorporated by reference in this Prospectus or to any performance measures prepared in accordance with IFRS-EU. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by BMN, may not be comparable to other similar titled measures used by other companies. In addition, these measures are not comparable to similarly titled measures contained in the notes to BMN's audited consolidated annual accounts for the years ended 31 December 2015 and 2014 or to BMN's condensed consolidated financial statements as at, and for the period ended 30 June, 2016. Investors should not consider such APMs in isolation, as alternative to the information calculated in accordance with IFRS-EU, as indications of operating performance or as measures of BMN's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for, or superior to, financial information prepared in accordance with IFRS-EU and investors are advised to review these APMs in conjunction with the consolidated annual accounts of BMN for the years 2015 and 2014 or to the condensed consolidated financial statements of BMN as at, and for the period ended 30 June 2016 incorporated by reference to this Prospectus.

BMN considers that the APMs contained in this Prospectus comply with the ESMA Guidelines.

The APMs used in this Prospectus (and documents incorporated by reference to this Prospectus) are defined below:

APM			June-16	Dec.-15 ^(*)	Dec.-15	Dec.-14	Unit	
Loan to Deposits (LtD) ^(***) <i>(Ratio de créditos sobre depósitos)</i>	Numerator	+ Loans and advances to customers included in Loans and receivables heading	22,418	22,273	22,273	23,538	Million Euro	
		- Loans granted with ICO funds	350	465	465	821		
	Denominator	+ Customer deposits	30,136	30,639	30,639	32,728	Million Euro	
		- Outstanding mortgage bonds issued-Securitisation fund shares	4,817	5,901	5,901	7,650		
		- Securitisation fund shares	2,130	1,528	1,528	1,015		
		-Repurchase agreements	230	248	248	292		
		-Valuation adjustments	196	228	228	280		
	Ratio		96.9	95.9	95.9	96.7	Per cent.	
	Book value per share <i>(Ratio del valor contable por acción)</i>	Numerator	+ Shareholders' equity	2,223	2,198	2,198	2,146	Million Euro
		Denominator	+ Weighted average number of shares	1,611	1,612	1,612	1,612	Units (million)
Ratio		1.38	1.36	1.36	1.33	Euros		

Cost to income	Numerator	+ Operating expenses (Administrative expenses)	174	388	388	390	Million Euro
		+ Operating expenses (Amortisation expenses)	17	29	29	28	
	Denominator	+ Gross margin	387	1,004	1,004	1,216	Million Euro
	Ratio^(****)		49.4	41.5	41.5	34.4	Per cent.
Cost to income (Excluding net trading income) (or Efficiency Ratio (excluding trading income) (<i>Ratio de Eficiencia (excluyendo cartera de negociación)</i>))	Numerator	+ Operating expenses (Administrative expenses)	174	388	388	390	Million Euro
		+ Operating expenses (Amortisation expenses)	17	29	29	28	
	Denominator	+ Gross margin	387	1,004	1,004	1,216	Million Euro
		- (Gross margin-Gains/(losses) on financial assets and liabilities (net) (Gain or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net)) / ((Gains/(losses) on financial assets and liabilities (net) (instruments not measured at fair value through profit or loss, net))	93	313	313	450	
		- (Gain or (-) losses on financial assets and liabilities held for trading, net) / ((Gains/(losses) on financial assets and liabilities (net) (held for trading))	1	30	30	4	
		- Gain or (-) losses from hedge accounting, net) / ((Gains/(losses) on financial assets and liabilities (net) (Others))	0,033	0,123	0,123	-0,494	
	Ratio		65.3	63.0	63.0	55.0	Per cent.
Non Performing Loans Ratio	Numerator	+ Non performing loans and advances to customers included in Loans and receivables heading	2,541	2,766	2,766	3,437	Million Euro
(or Non-performing loans and customer credit facilities or Non-performing loans for loans and advance to customer Ratio (<i>Ratio de morosidad y anticipos de la clientela</i> or <i>Ratio de morosidad de crédito a la clientela</i>))	Denominator	+ Loans and advances to customers included in Loans and receivables heading	23,447	23,421	23,209	24,915	Million Euro
Ratio		10.8	11.8	11.9	13.8	Per cent.	

Non Performing Loans Coverage Ratio (or Non-performing loans and customer credit facilities Coverage Ratio or Non-performing loans Ratio (<i>Ratio de cobertura de morosidad de préstamos y anticipos de la clientela</i> or <i>Ratio de cobertura de la morosidad</i>))	Numerator	+ Accumulated impairments on performing and non-performing exposures of loans and advances to customers	1,029	1,148	1,148	1,391	Million Euro
	Denominator	+ Non performing loans and advances to customers included in Loans and receivables heading	2,541	2,766	2,766	3,437	Million Euro
	Ratio			40.5	41.5	41.5	40.5
Customer spread ^(***) (<i>Diferencial de la clientela</i>)	Difference between	+ Loans yield	2.3	2.6	2.6	3.0	Per cent.
		+ Customer funds	0.3	0.5	0.5	0.8	Per cent.
	Ratio			2.0	2.1	2.1	2.2
Cost of Risk (<i>Coste del riesgo</i>)	Numerator	+ (Provisions or (-) reversal of provisions) / (Provisions (net)) (annual data)	21	-0,947	-0,947	9,559	Million Euro
		+ (Provisions or (-) reversal of provisions + Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss) / (impairment losses on financial assets (net)) (annual data)	199	443	443	548	
		+ (Impairment or (-) reversal of impairment on non-financial assets) / (impairment losses on other assets(net)) ^(**)	31	47	47	22	
	Denominator	+ Loans and advances to customers included in Loans and receivables heading	22,418	22,273	22,273	23,538	Million Euro
		+ Assets received to pay debts (net)	1,047	1,076	1,076	913	
	Ratio			1.1	2.1	2.1	2.4
Operating Expenses (percentage on Average Total Assets (<i>Gastos de Explotación (% sobre Activos Totales Medios)</i>))	Numerator	+ Operating expenses (Administrative expenses) ^(***)	348	388	388	391	Million Euro
		+ Operating expenses (Amortisation) ^(***)	35	29	29	28	Million Euro
	Denominator	+ Average Total Assets	40,586	43,098	43,098	46,326	Million Euro
	Ratio			0.94	0.97	0.97	0.90
Coverage of foreclosed assets (<i>Tasa de Cobertura de los activos adjudicados</i>)	Numerator	+ Impairment of the accumulated value of foreclosed assets	351	347	347	288	Million Euro
	Denominator	+ Gross carrying amount of foreclosed assets	1,399	1,423	1,423	1,201	Million Euro
	Ratio			25.1	24.4	24.4	24.0

(*) In 2016 BMN adapted the presentation of its financial information to Bank of Spain Circular 5/2014 and to CNMV Circular 5/2015 and, therefore, the model balance sheet and income statement as at, and for the period ended, 30 June 2016 follow

the format of presentation established by such regulations. This column has been included for comparative purposes only to reflect such changes in the financial information presentation.

(**) Annualised data.

Source: Financial information as at, and for the periods ended, 31 December 2014, 31 December 2015 and 30 June 2016; except (***) which has been prepared using management information.

(****) The cost to income ratio as at 30 June 2015 was 39.4 per cent. (€190 million administrative expenses plus €15 million amortisation expenses divided by a gross margin of €518 million).

Recent Developments

On 28 September 2016 the FROB notified BMN of its resolution to take the necessary measures to analyse the reorganisation of its investee credit institutions through a merger between Bankia, S.A. (in which the FROB holds a stake of approximately 65 per cent. of its share capital) and BMN (in which the FROB holds a 65 per cent. stake), also exploring other possible alternatives. In a regulatory announcement of that date, the FROB clarified that at the moment only a study will be carried out and, subsequently, depending on its conclusions, a final decision will be taken. BMN will analyse the actions and studies to be carried out.

TAXATION

Taxation in Spain

The following is a general description of certain Spanish tax considerations arising in connection with the acquisition and holding of the Notes by individuals or entities who are the beneficial owners of the Notes (the "Noteholders" and each a "Noteholder"). It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Spain of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

All the tax consequences described in this section are based on the general assumption that the Notes are initially registered for clearance and settlement in Iberclear.

This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date, including changes with retroactive effect.

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Prospectus:

- (a) of general application, Additional Provision One of Law 10/2014, which also applies to debt instruments issued by Spanish resident companies and Spanish public entities having corporate form, as well as Royal Decree 1065/2007, dated 27 July 2007, as amended by Royal Decree 1145/2011, dated 29 July 2011;
- (b) for individuals resident for tax purposes in Spain which are subject to Law 35/2006, dated 28 November 2006, on Personal Income Tax ("PIT"), as amended by Law 26/2014, of 27 November, and Royal Decree 439/2007, dated 30 March 2007, enacting the PIT Regulations, as amended by Royal Decree 633/2015, dated 10 July 2015, along with Law 19/1991, dated 6 June 1991, on Wealth Tax, as amended, and Law 29/1987, dated 18 December 1987, on Inheritance and Gift Tax ("IGT");
- (c) for legal entities resident for tax purposes in Spain which are subject to the Law 27/2014, dated 7 November, on Corporate Income Tax ("CIT") and Royal Decree 634/2015, dated 10 July 2015, promulgating the CIT Regulations, as amended; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are subject to Royal Legislative Decree 5/2004, dated 5 March 2004, promulgating the Consolidated Text of the law on Non-Resident Income Tax ("NRIT"), as amended by Law 26/2014, of 27 November, along with Law 19/1991, dated 6 June 1991, on Wealth Tax, as amended, and Royal Decree 1776/2004, dated 30 July 2004, promulgating the NRIT Regulations, as amended by Royal Decree 633/2015, dated 10 July 2015, and Law 29/1987, dated 18 December 1987, on IGT.

Indirect taxation

Whatever the nature and residence of the Noteholder, the acquisition and transfer of the 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, dated 24 September 1993, and exempt from Value Added Tax, in accordance with Law 37/1992, dated 28 December 1992, regulating such tax.

Direct taxation

The Issuer understands that the Notes should be deemed as financial assets with an explicit yield for Spanish tax purposes, according to article 91 of the PIT Regulations and article 63 of the CIT Regulations.

Individuals with tax residency in Spain

Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)

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 a person's own capital to third parties in accordance with the provisions of article 25.2 of the PIT Law, and must be included in the investor's PIT savings taxable base.

The PIT savings taxable base is taxed at the following rates: (i) for taxable income up to €6,000: 19 per cent.; (ii) for taxable income from €6,001 to €50,000: 21 per cent.; and (iii) for any amount in excess of €50,000: 23 per cent.

Individual investors subject to PIT will be subject to a withholding on account of PIT at the current rate of 19 per cent. by the Issuer on interest payments as well as on income derived from the redemption or repayment of the Notes.

However, income derived from the transfer of the Notes should not be subject to withholding on account of PIT **provided that** the Notes are:

- (a) registered in book-entry form (*anotaciones en cuenta*); and
- (b) traded in a Spanish official secondary market (*mercado secundario oficial*), such as AIAF.

Notwithstanding the above, a withholding tax at the rate of 19 per cent. shall apply on the part of the transfer price that corresponds to the accrued interest when the transfer of the Notes takes place within the 30-day period prior to the moment in which such interest is due when the following requirements are fulfilled:

- (a) the acquirer would be a non-Spanish tax resident or a CIT taxpayer;
- (b) the explicit yield derived from the transfer of the Notes is exempt from withholding tax.

In any event, the individual Noteholder may credit the withholding tax applied by the Issuer against his or her final PIT liability for the relevant tax year.

Wealth Tax (Impuesto sobre el Patrimonio)

All Spanish resident individuals are liable for Wealth Tax to the extent that their net worth exceeds €700,000. This tax is levied on the net worth of an individual's assets and rights in accordance with the applicable Spanish regional and State rules. The marginal rates range between 0.2 per cent. and 2.5 per cent. and some reductions could apply. Individuals with tax residency in Spain who are under the obligation to pay Wealth Tax must take into account the amount of the Notes which they hold as at 31 December in each year, when calculating their Wealth Tax liabilities.

In accordance with article 66 of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), a full exemption on Net Wealth Tax would apply in 2017.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to IGT in accordance with the applicable Spanish regional and state rules. The applicable tax rates range between 7.65 per cent. and 81.6 per cent. depending on relevant factors.

Legal entities with tax residency in Spain

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general tax rate of 25 per cent.) in accordance with the rules for such tax.

No withholding on account of CIT will be imposed on interest payments or on income derived from the redemption or repayment of the Notes by Spanish CIT taxpayers subject to the fulfilment of the relevant requirements, as described in "*Compliance with certain requirements in connection with income payments*" section below.

With regard to income derived from the transfer of the Notes, in accordance with article 61.q) of the CIT Regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) **provided that the Notes are:**

- (a) registered in book-entry form (*anotaciones en cuenta*); and
- (b) negotiated in a Spanish official secondary market (*mercado secundario oficial*), such as AIAF or in the Alternative Fixed-Income Securities Market (*Mercado Alternativo de Renta Fija*).

Wealth Tax (Impuesto sobre el Patrimonio)

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Notes are not subject to Wealth Tax.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to IGT but generally must include the market value of the Notes in their taxable income for CIT purposes.

Individuals and legal entities that are not tax resident in Spain

1. *Investors that are not resident in Spain for tax purposes, acting in respect of the notes through a permanent establishment in Spain*

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set forth above for Spanish CIT taxpayers. See "*Legal entities with tax residency in Spain – Corporate Income Tax (Impuesto sobre Sociedades)*" section above.

Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

Wealth Tax (Impuesto sobre el Patrimonio)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, Wealth Tax will not become applicable.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, IGT will apply in the same manner as described in "*Legal entities with tax residency in Spain – Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*" section above.

2. *Investors that are not resident in Spain for tax purposes, not acting in respect of the Notes through a permanent establishment in Spain*

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

Both interest payments periodically received under the Notes and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT. No withholding on account of NRIT

will be levied on such income subject to the fulfilment of the relevant requirements, as described in "*Compliance with certain requirements in connection with income payments*" section below.

Wealth Tax (Impuesto sobre el Patrimonio)

In relation to fiscal year 2016, non-Spanish tax resident individuals holding Notes will be subject to Wealth Tax to the extent that such Noteholders own Notes (along with other property located in Spain and rights which could be exercised in Spain) valued at a combined net amount in excess of €700,000 as of 31 December. Spanish Wealth Tax rates vary between 0.2 per cent. and 2.5 per cent. To the extent that 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 the year will be exempt from Wealth Tax. Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally be exempt from Wealth Tax. If the exemptions outlined do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that the Notes are located in Spain or the rights deriving from the Notes can be exercised in Spain.

In accordance with article 66 of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), a full exemption on Net Wealth Tax would apply in 2017.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Notes by inheritance, gift or legacy will be subject to IGT in accordance with the applicable Spanish state rules (EU individuals not resident in Spain for tax purposes are expected to apply regional rules), unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to IGT. In such case, the provisions of the relevant double tax treaty will apply.

If no double tax treaty in relation to IGT applies, applicable IGT rates would range between 7.65 per cent. and 81.6 per cent., depending on relevant factors.

Non-Spanish tax resident legal entities that acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to IGT. Such acquisitions may be subject to NRIT (as described above), unless otherwise applicable under the provisions of any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the Noteholder.

Compliance with certain requirements in connection with income payments

Interest payments made by the Issuer in respect of the Notes for the benefit of Spanish CIT taxpayers and non-Spanish tax resident investors will not be subject to Spanish withholding tax, **provided that** the conditions set forth in Additional Provision One of Law 10/2014 are met and the Iberclear Members that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Issuer, in a timely manner, with a duly executed and completed statement (a "**Payment Statement**"), in accordance with section 4 of article 44 of Royal Decree 1065/2007, dated 27 July 2007, as amended by Royal Decree 1145/2011, dated 29 July 2011, containing the following information:

1. Identification of the Notes.
2. Date of payment.
3. Total amount of the income paid by the Issuer.
4. Amount of the income corresponding to individual residents in Spain that are PIT taxpayers.
5. Amount of the income that must be paid on a gross basis.

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of interest made by the Issuer

under the Notes, the Issuer will make the relevant Spanish withholding tax at the applicable rate of 19 per cent. on such payment of interest and the Issuer will not pay any additional amounts with respect to any such withholding tax.

If this were to occur, affected Noteholders will receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to the Issuer no later than the tenth calendar day of the month immediately following the relevant payment date. In addition, Noteholders which are not resident in Spain for tax purposes may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish NRIT Law and its Regulations.

Prospective investors should note that the Issuer does not accept any responsibility relating to the lack of delivery of a duly executed and completed Payment Statement by the Iberclear Members in connection with each payment of income under the Notes. Accordingly, the Issuer will not be liable for any damage or loss suffered by any Noteholder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because the Payment Statement was not duly delivered to the Issuer. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding tax.

The proposed financial transactions 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 Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, 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.

However, the Commission's proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

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

FATCA

Whilst the Notes are cleared through Iberclear, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, given that each of the entities in the payment chain between the Issuer and the participants in Iberclear is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes.

SUBSCRIPTION AND SALE

Deutsche Bank AG (the "**Structuring Bank**" and the "**Lead Manager**") has, in a subscription agreement dated 14 November 2016 (the "**Subscription Agreement**") made between the Issuer and the Lead Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for, or to procure subscriptions and payment for, the Notes. The Issuer has agreed to pay certain commissions to the Lead Manager, and to reimburse the Structuring Bank for certain of its expenses incurred in connection with the management of the issue of the Notes. The Lead Manager is entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of the Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Lead Manager 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 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 Issuer; 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

The Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor the Lead Manager shall have any responsibility therefor.

None of the Issuer nor Lead Manager represents that Notes may at any time lawfully 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 sale.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the board of directors of the Issuer dated 17 October 2016.

Interest of natural and legal persons involved in the issue

2. Save for any fees payable to the Lead Manager, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The 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 other services for, the Issuer and its affiliates in the ordinary course of business.

Legal and Arbitration Proceedings

3. Save as disclosed in "*Description of the Issuer—Legal and Other Proceedings*", there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

Significant/Material Change

- 4.1 Since 31 December 2015 there has been no material adverse change in the prospects of the Issuer.
- 4.2 In addition to the above, save as disclosed in "*Recent Developments*", since 30 June 2016 there has been no significant change in the financial or trading position of the Issuer.
- 4.3 The section *Risk Factors – Risks Relating to the Issuer* of this Prospectus includes a detailed description of the factors and uncertainties which could have a material effect on the Issuer's prospects.

Auditors

5. The appointment of PricewaterhouseCoopers Auditores, S.L. as external auditor of the Issuer for the financial years ended 31 December 2015, 2016 and 2017 was approved at General Shareholders' meeting on 26 June 2015. The consolidated annual accounts of the Issuer for the year ended 31 December 2015 have been audited without qualification by PricewaterhouseCoopers Auditores, S.L. and the interim consolidated financial statements of the Issuer as of, and for, the six months ended 30 June 2016 have been the subject of a limited review by PricewaterhouseCoopers Auditores, S.L. The registered office of PricewaterhouseCoopers Auditores, S.L. is Torre PwC, Paseo de la Castellana 259 B, 28046, Madrid, Spain (registered in the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S0242 and member of the *Instituto de Censores Jurados de Cuentas de España*). No other information relating to the Issuer in this Prospectus has been audited by PricewaterhouseCoopers Auditores, S.L.
6. The consolidated annual accounts of the Issuer for the year ended 31 December 2014 have been audited without qualification by Deloitte, S.L. The registered office of Deloitte, S.L. is Plaza Pablo Ruiz Picasso, 1, Madrid, Spain (registered in the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S0692 and member of the *Instituto de Censores Jurados de Cuentas de España*). No other information relating to the Issuer in this Prospectus has been audited by Deloitte, S.L.

Documents on Display

7. For so long as any of the Notes are outstanding, copies of the following documents will be available:
 - (a) the Bylaws (*estatutos*) of the Issuer on the Issuer's website (www.grupobmn.es);
 - (b) the deed of incorporation of the Issuer at the Commercial Registry (*Registro Mercantil*) of Madrid;
 - (c) the Deed of Covenant at the registered office of the Issuer; and
 - (d) the audited consolidated annual accounts of the Issuer for each of the years ended 31 December 2015 and 31 December 2014 and the interim consolidated financial statements of the Issuer as of and for the six months ended 30 June 2016 at the registered office of the Issuer, on the Issuer's website (www.grupobmn.es) and on the CNMV's website (www.cnmv.es).

Material Contracts

8. There are no material contracts (other than contracts entered into in the ordinary course of business) which could result in any member of the Group being under an obligation that is material to the Issuer's ability to meet its obligations to holders of the Notes.

Lead Manager transacting with the Issuer

9. The 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, the 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. The Lead Manager or its 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 Lead Manager and its 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 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.

Yield

10. On the basis of the issue price of the Notes of 100 per cent. of their principal amount and on the assumption that the Notes will be called on the Reset Date, the yield of the Notes is 9.000 per cent. on an annual basis. Notwithstanding the above mentioned assumptions, there is no assurance as to whether or not the Notes will be actually called on the Reset Date. Therefore the yield realised by subscribers may be different.

Listing of Notes

11. This Prospectus has been registered with the CNMV in its capacity as competent authority under the LMV and relevant implementing rules and regulations in Spain. Application has been made for the Notes to be admitted to trading on AIAF. It is expected that admission to trading of the Notes will take place within 30 days of the Closing Date.

Expenses related to the admission to trading

12. For informative purposes only, an approximate estimate of the expenses payable by Banco Mare Nostrum in relation to the admission to trading is as follows:

Type of expense	Euro (estimated amount)
Charges and fees of AIAF and Iberclear	9,250
CNMV fees (listing).....	17,500
Other (rating agency, legal advisors, auditor).....	292,250
TOTAL	319,000

SIGNATURES

In witness to their knowledge and approval of the contents of this Prospectus drawn up according to Annexes XI and XIII of Commission Regulation (EC) No. 809/2004 of 29 April 2004, it is hereby signed by Mr Ignacio Ramón Ezquiaga Domínguez, in his capacity as chief financial officer of Banco Mare Nostrum, S.A., in Madrid, this 14th day of November 2016.

.....
Mr Ignacio Ramón Ezquiaga Domínguez

ISSUER

Banco Mare Nostrum, S.A.
Paseo de Recoletos, 17
28004, Madrid
Spain

STRUCTURING BANK AND LEAD MANAGER

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

AGENT

Cecabank, S.A.
Alcalá, 27
28014 Madrid

LEGAL ADVISERS

To the Issuer as to English and Spanish law:

Clifford Chance S.L.P.
Paseo de la Castellana 110
28046 Madrid
Spain

To the Lead Manager as to English and Spanish law:

Allen & Overy
Pedro de Valdivia 10
28006 Madrid
Spain

AUDITORS TO THE ISSUER

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