

# Liberbank

## LIBERBANK, S.A.

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

### Euro 300,000,000 Fixed Rate Reset Subordinated Notes due 14 March 2027

The issue price of the Euro 300,000,000 Fixed Rate Reset Subordinated Notes due 14 March 2027 (the “**Notes**”) of Liberbank, S.A. (the “**Issuer**”, and together with its consolidated subsidiaries, “**Liberbank**” or the “**Group**”) is 100 per cent of their principal amount (as defined in the Conditions).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on 14 March 2027. 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 (as defined below), 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 and Purchase—Redemption for tax reasons*)), or if a Capital Event (as defined in the Conditions) occurs (see Condition 6.4 (*Redemption and Purchase—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 14 March 2022 (the “**Call Date**”) (see Condition 6.2 (*Redemption and Purchase—Redemption at the option of the Issuer (Issuer Call)*)).

The Notes will bear interest on their principal amount (i) at a fixed rate of 6.875 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 14 March in each year, with the first Interest Payment Date on 14 March 2018; and (ii) from (and including) the Reset Date, at the applicable 5-year Mid-Swap Rate in respect of the Reset Period, plus 6.701 per cent per annum as determined by the Agent (as defined in the Conditions), payable annually in arrear on 14 March in each year (each an Interest Payment Date (as defined in the Conditions)), commencing on 14 March 2023. 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*).

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 as more fully described in Condition 3 (*Status of the Notes*) of the Notes.

The Notes will be in the denomination of €100,000. The Notes will be issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) and will be registered with the *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**”) and its member entities (“**Iberclear Members**”).

This prospectus (the “**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, as amended (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Lead Managers (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.U. (“**Fitch**”).

Fitch is established in the European Economic Area (“**EEA**”) and registered under regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”) and they appear on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the European Securities and Markets Authority (“**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.**

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

*Structuring Bank*

Deutsche Bank

*Joint Lead Managers*

Banco Bilbao Vizcaya  
Argentaria, S.A.

Barclays

Deutsche Bank

16 March 2017

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## IMPORTANT NOTICES

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 Joint Lead Managers named under “*Subscription and Sale*” below (the “**Joint Lead Managers**”) that this Prospectus contains all information regarding the Issuer, the Group 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; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading; 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, the Group 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 Joint Lead Managers. 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 or the date upon which the 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 Joint Lead Managers nor any of their 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 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 Joint Lead Managers 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 Joint Lead Managers 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 Joint Lead Managers expressly do 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 their 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 Joint Lead Managers 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.

This Prospectus includes forward-looking statements that reflect the Issuer’s and/or the Group’s intentions, beliefs or current expectations and projections about the Group’s future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, trends and the markets in which the Group operates or intends to operate. Forward-looking statements involve all matters that are not historical fact. These and other forward-looking statements can be identified by the words “may”, “will”,

“would”, “should”, “expect”, “intend”, “estimate”, “anticipate”, “project”, “future”, “potential”, “believe”, “seek”, “plan”, “aim”, “objective”, “goal”, “strategy”, “target”, “continue” and similar expressions or their negatives. These forward-looking statements are based on numerous assumptions regarding the Group’s present and future business and the environment in which the Group expects to operate in the future. Forward-looking statements may be found in the directors’ reports that accompany the financial statements of the Group incorporated by reference herein.

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

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

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**”, “**euro**” or “**€**” 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.

## 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) the Issuer's Spanish language Registration Document (*Documento de Registro*) filed on 5 July 2016 with the CNMV, available for viewing at:  
[https://corporativo.liberbank.es/system/wilson\\_cms/documents/documents/000/001/611/original/documentoDeRegistro2016.pdf?1468410780](https://corporativo.liberbank.es/system/wilson_cms/documents/documents/000/001/611/original/documentoDeRegistro2016.pdf?1468410780)
- (ii) the English language translations of the Issuer's audited consolidated financial statements as at and for the year ended 31 December 2016, together with the audit report issued by Deloitte, S.L. and the consolidated directors' report, available for viewing at:  
[https://corporativo.liberbank.es/system/wilson\\_cms/documents/documents/000/001/896/original/2016\\_Annual\\_Report.pdf?1488280281](https://corporativo.liberbank.es/system/wilson_cms/documents/documents/000/001/896/original/2016_Annual_Report.pdf?1488280281)
- (iii) the English language translations of the Issuer's audited consolidated financial statements as at and for the year ended 31 December 2015, together with the audit report issued by Deloitte, S.L. and the consolidated directors' report, available for viewing at:  
[https://corporativo.liberbank.es/system/wilson\\_cms/documents/documents/000/001/534/original/2015\\_Annual\\_Report.pdf?1462805649](https://corporativo.liberbank.es/system/wilson_cms/documents/documents/000/001/534/original/2015_Annual_Report.pdf?1462805649)

This Prospectus updates the information contained in the Issuer's Registration Document (*Documento de Registro*) filed on 5 July 2016 with the CNMV, as follows: (i) Risk Factors (*Factores de Riesgo*); (ii) Financial information (*Información financiera*); (iii) Information regarding board members (*Información relativa a los consejeros*); (iv) Significant shareholders (*Accionistas significativos*); (v) Credit rating (*Calificación crediticia*); and (vi) Share capital (*Capital social*).

The English translations of the Issuer's consolidated financial statements are free translations of the original Spanish text. To the extent there are any inconsistencies, the Spanish text will prevail.

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

Pursuant to Spanish regulatory requirements, directors' reports are required to accompany the Issuer's consolidated financial statements and are included and incorporated by reference into this prospectus only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as of various historical dates and do not contain a current description of the Issuer's business, affairs or results. The information contained in the directors' reports has been neither audited nor prepared for the specific purpose of the Offering. Accordingly, the directors' reports should be read together with the other portions of this prospectus, and in particular the sections entitled "Risk Factors" and "Description of the Issuer". Any information contained in the directors' reports shall be deemed to be modified or superseded by any information elsewhere in the prospectus that is subsequent to or inconsistent with it. Furthermore, the directors' reports include certain forward-looking statements that are subject to inherent uncertainty and which may not have been updated. Accordingly, investors are cautioned not to rely upon the information contained in such directors' reports.

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. Any statement contained in a document that is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of 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 (<https://www.cnmv.es>) and will be also available to view on the Liberbank website (<https://corporativo.liberbank.es/en/investors-and-shareholders>).

## 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” (the “**Conditions**”) below or elsewhere in this Prospectus have the same meanings in this overview.*

|                               |   |
|-------------------------------|---|
| <b>The Issuer:</b>            | Liberbank, S.A., incorporated in the Kingdom of Spain.  |
| <b>Structuring Bank:</b>      | Deutsche Bank AG  |
| <b>Joint Lead Managers:</b>   | Banco Bilbao Vizcaya Argentaria, S.A.<br>Barclays Bank PLC<br>Deutsche Bank AG  |
| <b>The Notes:</b>             | Euro 300,000,000 Fixed Rate Reset Subordinated Notes due 14 March 2027.   |
| <b>Issue Price:</b>           | 100 per cent of the principal amount of the Notes.  |
| <b>Closing Date:</b>          | Expected to be on or about 14 March 2017.   |
| <b>Use of Proceeds:</b>       | See “ <i>Use of Proceeds</i> ”.   |
| <b>Interest:</b>              | <p>The Notes will bear interest on their outstanding principal amount (i) at a fixed rate of 6.875 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 14 March in each year, with the first Interest Payment Date on 14 March 2018; 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 6.701 per cent per annum as determined by the Agent, payable annually in arrear on 14 March in each year (each an Interest Payment Date (as defined in the Conditions)), commencing on 14 March 2023.</p> <p>All as more particularly described in Condition 4 (<i>Interest and Other Calculations</i>) of the Notes.</p> |
| <b>Status:</b>                | The Notes are subordinated, unconditional and unsecured obligations of the Issuer. In accordance with the provisions of article 63 (e) of the CRR (as defined below), the Notes are neither secured, nor subject to a guarantee that enhances the seniority of the claim by the Issuer, its subsidiaries or any undertaking that has close links with the Issuer or its subsidiaries. All as more particularly described in Condition 3 (Status of the Notes) of the Notes. The Notes are expected to constitute Tier 2 Capital of the Issuer.  |
| <b>Form and Denomination:</b> | The Notes will be issued in uncertificated, dematerialised book-entry form ( <i>anotaciones en cuenta</i> ) and will be registered with Iberclear as managing entity of the Spanish Central Registry and its Iberclear Members. The Notes will be in the denomination of €100,000.  |
| <b>Final Redemption:</b>      | 14 March 2027.  |
| <b>Optional Redemption:</b>   | The Notes may be redeemed in whole but not in part prior to their stated maturity at the option of the Issuer in accordance with Condition 6.2 ( <i>Redemption and Purchase—Redemption at the option of the Issuer (Issuer Call)</i> ).   |

|                               |  |
|-------------------------------|--|
| <b>Tax Redemption:</b>        | Early redemption will be permitted for tax reasons at the option of the Issuer in accordance with Condition 6.3 ( <i>Redemption and Purchase—Redemption for tax reasons</i> ).   |
| <b>Regulatory Redemption:</b> | 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 and Purchase—Redemption at the option of the Issuer (Capital Event)</i> ).  |
| <b>Rating:</b>                | <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> |
| <b>Withholding Tax:</b>       | <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>   |
| <b>Governing Law:</b>         | The title and transfer of the Notes as described in Condition 2.3 ( <i>Form, Denomination and Title—Title and transfer</i> ) and the status of the Notes as described in Condition 3 ( <i>Status of the Notes</i> ) shall be governed by 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.  |
| <b>Listing and Trading:</b>   | 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.  |
| <b>Clearing Systems:</b>      | <p>Iberclear.</p> <p>Holders of a beneficial interest in the Notes who do not have, directly or indirectly through their custodians, an account with Iberclear or an Iberclear member may participate in the Notes through bridge accounts maintained by each of Euroclear System (“<b>Euroclear</b>”) and Clearstream Banking, société anonyme (“<b>Clearstream Luxembourg</b>”), with Iberclear.</p>   |
| <b>Selling Restrictions:</b>  | See “ <i>Subscription and Sale</i> ”.  |
| <b>Risk Factors:</b>          | Investing in the Notes involves risks. See “ <i>Risk Factors</i> ”.  |

## **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 Conditions 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. The order in which the following risks are presented is not necessarily an indication of the probability that the risks shall actually materialise.*

*The Issuer 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**

***The Group is exposed to credit, counterparty and concentration risk given that a substantial portion of its portfolio is particularly sensitive to adverse developments in the economy, increasing the risk profile of its lending activities.***

#### **Credit risk**

Credit risk can be defined as the risk of possible losses which may be generated by a potential default in whole or in part of obligations by clients or counterparties, as well as losses due to the deterioration of the creditworthiness of such parties. These obligations arise in both the Group's retail financial activities and wholesale trading activities, including loans and debt securities, as well as from derivative hedging instruments.

As a financial institution, the Issuer is exposed to credit risk given that, at 31 December 2016, its assets consisted principally of loans and advances to customers (57.1% of its total assets at that date) and debt securities (24.6%). At 31 December 2015, the situation was similar, as loans and advances to customers constituted 54.1% of total assets and debt securities constituted 30.1%. At 31 December 2016 and 2015, hedging derivatives represented 1.2% and 0.9% of total assets, respectively.



The table below shows the Group's exposure to credit risk by counterparties at 31 December 2016:

| (Thousands of €)   | Carrying amount (net) | Of which: Property guarantees | Of which: Other collateral | Loans secured with collateral. Loan to value |   |   |  |                  |
|--|-----------------------|-------------------------------|----------------------------|--|---|---|--|------------------|
|  |                       |                               |                            | Less than or equal to 40%                    | More than 40% and less than or equal to 60% | More than 60% and less than or equal to 80% | More than 80% and less than or equal to 100% | More than 100%   |
| <b>Public Sector .....</b>   | <b>1,330,703</b>      | <b>53,392</b>                 | <b>3,763</b>               | <b>8,021</b>                                 | <b>16,948</b>                               | <b>27,145</b>                               | <b>2,490</b>                                 | <b>2,551</b>     |
| <b>Other financial corporations and sole proprietors (financial activity) .....</b>            | <b>262,550</b>        | <b>19,872</b>                 | <b>14,003</b>              | <b>18,963</b>                                | <b>6,586</b>                                | <b>8,096</b>                                | <b>101</b>                                   | <b>129</b>       |
| <b>Non-financial corporations and sole proprietors (non-financial activity) .....</b>          | <b>5,983,331</b>      | <b>2,910,416</b>              | <b>594,276</b>             | <b>1,122,939</b>                             | <b>649,220</b>                              | <b>576,274</b>                              | <b>266,644</b>                               | <b>889,615</b>   |
| Construction and real estate .....   | 767,383               | 763,299                       | 1,545                      | 104,333                                      | 79,558                                      | 117,218                                     | 79,444                                       | 384,291          |
| Civil engineering construction .....   | 3,084                 | --                            | --                         | --   | --  | --  | --   | --               |
| Remaining purposes .....   | 5,212,864             | 2,147,117                     | 592,731                    | 1,018,606                                    | 569,662                                     | 459,056                                     | 187,200                                      | 505,324          |
| Large enterprises .....  | 964,459               | 122,070                       | 95,183                     | 137,196                                      | 13,031                                      | 4,393                                       | 1,537  | 61,096           |
| SMEs <sup>(1)</sup> and sole proprietors .....   | 4,248,405             | 2,025,047                     | 497,548                    | 881,410                                      | 556,631                                     | 454,663                                     | 185,663                                      | 444,228          |
| <b>Other households and NPISH<sup>(2)</sup> .....</b>  | <b>14,156,774</b>     | <b>13,204,414</b>             | <b>21,097</b>              | <b>3,244,380</b>                             | <b>4,671,701</b>                            | <b>4,604,574</b>                            | <b>532,974</b>                               | <b>171,882</b>   |
| Housing .....  | 12,905,705            | 12,764,020                    | 1,331                      | 3,053,421                                    | 4,554,369                                   | 4,515,326                                   | 497,141                                      | 145,094          |
| Consumption .....  | 334,567               | 59,209                        | 659                        | 30,464                                       | 18,606                                      | 5,264                                       | 3,225  | 2,309            |
| Other .....  | 916,502               | 381,185                       | 19,107                     | 160,495                                      | 98,726                                      | 83,984                                      | 32,608                                       | 24,479           |
| <b>TOTAL .....</b>   | <b>21,733,358</b>     | <b>16,188,094</b>             | <b>633,139</b>             | <b>4,394,303</b>                             | <b>5,344,455</b>                            | <b>5,216,089</b>                            | <b>802,209</b>                               | <b>1,064,177</b> |
| <b>Memorandum item-Refinancing, refinanced and restructured operations<sup>(3)</sup> .....</b> | <b>1,292,434</b>      | <b>1,129,681</b>              | <b>88,375</b>              | <b>267,345</b>                               | <b>160,677</b>                              | <b>295,251</b>                              | <b>105,264</b>                               | <b>389,519</b>   |

(1) Small and medium-sized enterprises.

(2) Non-profit institutions serving households.

(3) Net amounts of impairment loss allowances and includes the accrued outstanding interest balances.

On 5 February 2010, the Spanish Deposit Guarantee Fund for Credit Entities (*Fondo de Garantía de Depósitos*) (the “**DGF**”) granted Banco de Castilla–La Mancha, S.A. (“**BCLM**”), a subsidiary of the Group, an asset protection scheme (the “**APS**”) in the amount of €2,475 million against a number of risks, such as credit risk, contingent risk and foreclosure risk. The APS expired on 31 December 2016, and consequently the assets and loans covered by the APS (the “**APS Assets**”) ceased to be protected (see “*History and Development*”).

At 31 December 2015, 12.2% of the gross customer loan portfolio (€2,973 million) was covered by the APS.

### Concentration risk

The Group is exposed to concentration risk, defined as the possibility of incurring in material losses as a result of concentration of risk on a certain borrower or a small group of interconnected borrowers.

The Group's loan portfolio is mainly composed of mortgage and consumer loans granted to individual customers, and loans to large companies and small and medium-sized enterprises (“**SMEs**”, as defined in Bank of Spain *Circular 4/2013, de 27 de septiembre* amending *Circular 3/2008, de 22 de mayo*, to credit institutions on determining and controlling minimum capital).

Large companies are particularly exposed to foreign and domestic economic developments, and many of them are currently in the process of debt reduction. This segment represents a more concentrated credit risk per customer and, therefore, an increase in NPLs of any individual customer in this segment would have a material adverse effect on the Issuer's operating results.

In the case of households and SMEs with high levels of debt, it is more likely that they will experience difficulties in meeting their debt obligations due to unfavourable economic circumstances, which could have an adverse effect on the net interest income and the loan portfolio of the Group, and consequently on its business, financial condition and operating results. Furthermore, the high level of indebtedness of households (combined with the fact that a significant percentage earn low-middle income) and SMEs also limits their capacity to incur more debt; this reduces the quantity of new products that, in other circumstances, the Group could sell and

restricts its capacity to attract new clients in Spain that meet its standards of credit quality, which could have an adverse effect on the Issuer's business activity.

Likewise, debt securities are issued by all types of entities with various credit ratings, and the Group is therefore exposed to the risk profiles of issuers. The Issuer's debt portfolio is mainly composed of issues by the Spanish government (23.8% and 28.4% of total assets at 31 December 2016 and 2015, respectively), which has substantially increased its debt in recent years. In this case, the ability to pay is mainly conditioned by budget income, which depends on a number of factors, such as the economic and market conditions affecting Spain and other EU member states. Defaults on debt issues where the Issuer holds positions could therefore have a material adverse effect on its business, prospects, results of operations and/or financial position.

The Group is also exposed to construction and property development risk, including risk in connection with any refinancing that may be agreed due to adverse developments in the economy, as this is vulnerable to fluctuations in the market price of real estate in Spain. At 31 December 2016, gross property development loans totalled €1,449 million and a net amount of €913 million (see—“*Exposure to construction and property development risk in Spain makes the Group vulnerable to fluctuations in the market price of real estate in Spain*”).

The table below shows the gross amount (excluding balances of interest accrued and impairment losses) of refinanced and restructured refinancing transactions as per the definition laid down by the Bank of Spain in *Circular 6/2012, de 28 de septiembre* to credit institutions amending *Circular 4/2004, de 22 de diciembre* on the regulations concerning public and reserved financial reporting, and models for financial statements, broken down into special monitoring, substandard or doubtful risk classifications, and respective coverage against credit risk, by counterparties and purposes:

|   | Total (thousands of euros) |                       |                         |                       |  |                  |  |
|---|----------------------------|-----------------------|-------------------------|-----------------------|--|------------------|--|
|   | Without collateral         |                       | Secured with collateral |                       |  |                  | Accumulated impairment losses or accumulated fair value losses |
|   | No. of transactions        | Gross carrying amount | No. of transactions     | Gross carrying amount | Maximum amount that may be considered for collateral |                  |  |
|   |                            |                       |                         |                       | Property guarantee                                   | Other guarantees |  |
| 31/12/2016  | No. of transactions        | Gross carrying amount | No. of transactions     | Gross carrying amount | Property guarantee                                   | Other guarantees | Accumulated impairment losses or accumulated fair value losses |
| Credit institutions .....   | --                         | --                    | --                      | --                    | --   | --               | --   |
| Public Sector .....   | 6                          | 4,224                 | 10                      | 10,187                | -  | 9,295            | (1,076)  |
| Other financial institutions and sole proprietors (financial business activity) .....                                 | 5                          | 2,989                 | 8                       | 10,243                | 194  | 14               | (2,276)  |
| Non-financial institutions and sole proprietors (non-financial business activity) .....                               | 540                        | 198,113               | 1,542                   | 1,284,876             | 278,239  | 524,327          | (499,231)  |
| Of which: financing for construction and property development .....   | 6                          | 7,959                 | 246                     | 567,393               | 24,192   | 332,731          | (205,638)  |
| Households (non-business activity) and NPISH .....  | 773                        | 5,232                 | 3,159                   | 344,399               | 260,690  | 7,549            | (65,245)   |
| <b>Total.....</b>   | <b>1,324</b>               | <b>210,558</b>        | <b>4,719</b>            | <b>1,649,705</b>      | <b>539,124</b>                                       | <b>541,184</b>   | <b>(567,829)</b>   |
| <i>Financing classified as non-current assets or disposal groups that have been classified as held for sale .....</i> | --                         | --                    | --                      | --                    | --   | --               | --   |

|   | Of which: Non-performing (thousands of euros) |                       |                         |                       |  |                  |  |
|---|---|-----------------------|-------------------------|-----------------------|--|------------------|--|
|   | Without collateral                            |                       | Secured with collateral |                       |  |                  | Accumulated impairment losses or accumulated fair value losses |
|   | No. of transactions                           | Gross carrying amount | No. of transactions     | Gross carrying amount | Maximum amount that may be considered for collateral |                  |  |
|   |   |                       |                         |                       | Property guarantee                                   | Other guarantees |  |
| 31/12/2016  |   |                       |                         |                       |  |                  |  |
| Credit institutions .....   | --  | --                    | --                      | --                    | --   | --               | --   |
| Public Sector .....   | 3   | 3,821                 | -                       | -                     | -  | -                | (1,076)  |
| Other financial institutions and sole proprietors (financial business activity) .....                                 | 5   | 2,989                 | 7                       | 753                   | 194  | 14               | (773)  |
| Non-financial institutions and sole proprietors (non-financial business activity) .....                               | 335   | 163,751               | 1,138                   | 1,117,011             | 214,423  | 466,758          | (487,309)  |
| Of which: financing for construction and property development .....   | 6   | 7,959                 | 237                     | 531,316               | 23,434   | 297,482          | (205,592)  |
| Households (non-business activity) and NPISH .....  | 318   | 3,139                 | 1,783                   | 209,955               | 143,557  | 4,745            | (62,586)   |
| <b>Total.....</b>   | <b>661</b>                                    | <b>173,701</b>        | <b>2,928</b>            | <b>1,327,720</b>      | <b>358,174</b>                                       | <b>471,518</b>   | <b>(551,746)</b>   |
| <i>Financing classified as non-current assets or disposal groups that have been classified as held for sale .....</i> | --  | --                    | --                      | --                    | --   | --               | --   |

The availability of precise and complete financial information as well as general credit information on which to base decisions related to credit is more limited with regard to SMEs than it is for large corporate customers, and is even more limited in the case of households. Despite the procedures used by the Issuer to calculate credit risk, for calculating credit risk, assessing the financial position of SMEs and households is more difficult and thus may result in errors when it comes to precise assessment of the credit risk posed by these borrowers, which could drive up the level of NPLs. The Group uses statistical models and internal valuation models to measure credit risk. In the event of any errors in the definition, application or utilisation of these models, the Issuer could incur losses due to decisions mainly based around the outcomes of the models. All this could lead to a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

At 31 December 2016, the Group's global NPL ratio was 13.9% while the NPL coverage ratio was 39.8%.

At 31 December 2015, the Group's global NPL ratio was 20.1% (including risk covered by the APS<sup>1</sup>) and 10.0% (excluding the APS risk), while the NPL coverage ratio was 48.4% including the unused APS funds allocated to the credit.

***The Group's business primarily depends on the Spanish economy, especially on its activities in its Home Regions, and therefore any adverse changes to this or any prolongation of the adverse economic situation could have a negative impact on the Issuer.***

The Issuer is a Spanish financial institution which conducts most of its business in Spain, particularly in the regions of Asturias, Cantabria, Extremadura and Castilla-La Mancha (the "**Home Regions**"), as well as in Madrid. All the consolidated total earnings and assets of the Group are derived from Spain, although it has two branches in Mexico and the Dominican Republic. Thus earnings from most of its products and services are affected by the performance of the Spanish economy, particularly in the autonomous regions and provinces in which it has carried on its lending business and, indirectly, on economic conditions in the European Economic Area ("**EEA**") in general. After Spain joined the Eurozone, the Spanish economy saw rapid growth until 2007, whereupon it experienced a brief slowdown and eventually fell into a deep period of recession, with successive downturns in business between 2009 and 2013. During this period, gross domestic product ("**GDP**") fell by an annual average of 1.5% (-3.6% in 2009, +0.0% in 2010, -0.6% in 2011, -2.1% in 2012 and -1.2% in 2013) and unemployment rose from 17.9% to 24.4%. In 2016, the economy maintained the positive trend of 2014 (1.4%) and 2015 (3.2%) and GDP grew by 3.2% (*source: Spain's National Institute of Statistics*), with good prospects for the years ahead. According to International Monetary Fund projections published in January 2017, Spain's GDP is expected to grow by 2.3% in 2017. However, the Spanish economy continues to face some major obstacles, including a high level of debt, both public and private, as well as high unemployment.

<sup>1</sup> The APS expired on 31 December 2016, and consequently the APS Assets ceased to be protected (see "*History and Development*").

Although there are signs of improvement among several Spanish economic indicators, such as improved internal demand, there are factors that could negatively affect the Spanish economy:

- (i) a high level of unemployment, which increases the country's vulnerability to economic impacts;
- (ii) a high default rate, which has an adverse impact on the business of Spanish credit institutions;
- (iii) a high public deficit which will lead to tighter fiscal consolidation in the coming years;
- (iv) Eurozone interest rates, and the cost of financing Spain's public debt, which could rise and hamper the recovery of the Spanish economy in the years to come;
- (v) fluctuations in the euro's exchange rate against the dollar or other currencies, which could have an adverse effect on the competitiveness of Spain's economy;
- (vi) a downturn in the world economy which, if exacerbated, would have a negative effect on Spain's foreign demand;
- (vii) geopolitical tensions, which could push up the price of oil and other commodities; and
- (viii) political instability caused by domestic and international aspects, among which uncertainty as to the elected party in Spain having to govern in minority, the result of the United States' elections and the consequences of the referendum on the United Kingdom's continuation as a European Union member state. In a referendum on 23 June 2016, the United Kingdom voted to leave the European Union (the "EU"). Although the immediate consequences of the referendum are still unknown, the outcome has served to heighten political, macroeconomic and social instability. European stock markets, among others, plunged when the news was confirmed, and this affected the banking sector in particular amidst fears of financial contagion. Although the Issuer is not directly exposed to the British economy since it conducts its business in Spain and does not operate in the United Kingdom market, it does however operate in a global market and consequently the outcome of the referendum could have an adverse material impact on its business activities, its financial condition and operating results.

In response to the global financial crisis, in recent years legislators and regulators in Spain and a number of countries around the world, including the United States of America and several EU member states, have been adopting measures aimed at stabilizing the financial markets. The premature withdrawal of support measures when it is perceived that the markets had improved somewhat, and doubts as to the sustainability of public deficits, may possibly prolong the troubled economic situation, and this could have a considerable adverse impact on the financial condition and operating results of the Group.

Any adverse changes affecting the Spanish economy, and especially the regions in which the Issuer operates, or the EEA, could reduce demand for the Group's products and services, including deposits and loans, and reduce its earnings and therefore its profitability.

***Increasingly stricter capital regulations and potential new requirements could have a negative impact on the functioning of the Group and its business.***

The economic crisis, and the financial crisis in particular, has produced a number of new regulatory initiatives around the world and in Europe by international finance bodies such as the Bank of International Settlements (the "BIS") or European bodies such as the European Systemic Risk Board, which have led to developments in European legislation mainly focusing on boosting oversight mechanisms, in a bid to bolster the protection of citizens and restore confidence in the financial system, by increasing the levels of banks' capitalisation and liquidity levels to help them combat any potential economic imbalances.

Within this context, the many pieces of new legislation have compelled banks to undertake a major recapitalisation exercise and adopt new measures to bolster the transparency of their market operations. The European Banking Authority (the "EBA") has taken on the role of EU's regulator, introducing a Single Supervisory Mechanism (the "SSM") for Europe's banks, with a focus on the harmonisation and homogenisation of not only regulatory requirements, but also of the supervisory approach.

In 2011, the framework known as Basel III (the recommendations on banking laws and regulations concerning capital and liquidity requirements issued by the Basel Committee on Banking Supervision (the “BCBS”) initially published in September 2010 and revised in December 2010 and thereafter) was introduced as a full set of reform measures drawn up by the BCBS, reporting to the BIS. These aimed to boost the banking sector’s ability to absorb impacts caused by financial and economic stress, improve risk management and corporate governance, and also improve banking transparency and disclosures. Concerning capital, Basel III redefines available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), tightens the minimum capital requirements, compels financial institutions to operate permanently with surplus capital (capital “buffers”), and includes new requirements for the risks considered.

Since 2013, the Basel III measures have been transposed into European law via *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012* (the “CRR”) and *Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC* (the “CRD IV Directive”). The CRR is directly applicable to all EU member states, and both regulations are subject to regulatory developments with which the EBA is tasked. Some of these are still pending publication. In the wake of transposition into European legislation, the BIS has continued to publish further regulations, some in the form of public consultations, which will lead to future amendments of the CRD IV Directive and the CRR.

In Spain, the CRD IV Directive was implemented through *Real Decreto-Ley 14/2013, de 29 de noviembre* on emergency measures for the adaptation of Spanish regulation to European Union regulations concerning the supervision and solvency of financial institutions (the “RDL 14/2013”), which transposed the most urgent measures in the CRD IV Directive and, mainly, through *Ley 10/2014, of 26 June* on the organisation, supervision and solvency of credit institutions (the “Law 10/2014”), introduced via *Real Decreto 84/2015, de 13 de febrero*, implementing Law 10/2014 (the “RD 84/2015”).

The CRR also implements the requirements of the CRD IV Directive, but leaves some scope for national governments to take discretionary action. In this regard, the Bank of Spain published three circulars with regulations applicable to the transitory regime of capital requirements and the treatment of deductions: (i) Bank of Spain *Circular 2/2014, de 31 de enero* to credit institutions on the exercise of a number of regulatory options in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the “Circular 2/2014”); (ii) Bank of Spain *Circular 3/2014, de 30 de julio*, to credit institutions and licensed appraisal companies and services, establishing measures to encourage the independence of appraisal activity through the amendment of Bank of Spain Circulars 7/2010, 3/1998 and 4/2004, and exercising regulatory options in connection with the deduction of intangible assets through the amendment of Circular 2/2014 (the “Circular 3/2014”); and (iii) *Circular 2/2016, de 2 de febrero*, to credit institutions on supervision and solvency, completing adaptation of the Spanish legal system to Directive 2013/36/EU and to Regulation (EU) No 575/2013 (the “Circular 2/2016”).

Specifically, the amendments to the solvency requirements of credit institutions and various transparency regulations, from the practical standpoint, grant priority to high-quality capital (Common Equity Tier 1 or “CET1”), introducing stricter eligibility criteria and more stringent ratios, in a bid to guarantee higher standards of capital adequacy in the Issuer’s financial sector.

These changes, particularly the establishment of a progressive minimum capital ratio in the coming years, and the compulsory capital “buffers” required to protect against future contingencies, the leverage ratio and liquidity requisites, among others, are having an adverse impact on the business and margins of banks, necessitating a redefinition of the banking business model, recapitalisation and adjustments to costs for the sake of efficiency.

On 23 November 2016, the European Commission published a package of proposed amendments (the “CRR2 Package”) to the CRR, the CRD IV Directive, the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation, among others. The objective of the CRR2 Package is to implement measures to: (i) enhance the resilience of EU financial institutions and foster financial stability; (ii) improve banks’ lending capacity to support the EU economy; and (iii) further facilitate the role of banks in achieving deeper and more liquid EU capital markets to promote the creation of a capital markets union within the EU. The CRR2 Package is currently under discussion and therefore its final scope and impact on the financial institutions, including Liberbank, is uncertain. The CRR2 Package, if implemented, could determine additional regulatory capital requirements, among others, for financial institutions, which could adversely affect the Group.

Pursuant to the Basel III capital regulation, at 31 December 2016<sup>2</sup> the Group's CET1 phased-in ratio was 12.14% (Pillar 1 regulatory minimum of 4.5%), the Tier 1 phased-in capital ratio was 12.29% (Pillar 1 regulatory minimum of 6.0%), the total capital phased-in ratio was 12.29% (Pillar 1 regulatory minimum of 8.0%), considering the part of the Group profits not distributed in 2016, which were approved by the European Central Bank (the "ECB") to be included as CET 1 capital in the amount of €119.42 million. At 31 December 2016, the Group's CET1 fully loaded ratio considering the Group profits not distributed and including the 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 10.74%.

Pursuant to the Basel III capital regulation, at 31 December 2015 the Group's CET1 phased-in ratio was 13.67% (Pillar 1 regulatory minimum of 4.5%), the Tier 1 capital phased-in ratio was 13.96% (Pillar 1 regulatory minimum of 6.0%), and the total capital phased-in ratio was 13.96% (Pillar 1 regulatory minimum of 8.0%), considering the part of the Group profits not distributed in 2015, which were approved by the ECB to be included as CET 1 capital in the amount of €88.28 million. At 31 December 2015, the Group's CET1 fully loaded ratio considering the Group profits not distributed and including the 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 13.62%.

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 the Group within the SSM. The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the "**SREP**") at least on an annual basis.

As a result of the SREP carried out by the ECB in 2016, Liberbank was notified of the minimum capital prudential requirements for 2017. As of 1 January 2017, Liberbank is required to maintain a CET1 phased-in ratio of 8.25% and a total capital phased-in ratio of 11.75% of its consolidated basis that include: (i) the Pillar 1 regulatory minimum of 4.50% in CET1 and 8% in total capital; (ii) the Pillar 2 requirement (2.5%); and (iii) the capital "buffers" applicable to 2017 (in the case of the Issuer, the 1.25% capital conservation "buffer" only).

In 2015, the ECB also carried out the SREP in connection with 2016. As a result, Liberbank was required to maintain, as of 1 January 2016, a CET1 phased-in capital ratio of 10.25% on a consolidated basis. This CET1 capital ratio of 10.25% includes the minimum CET1 capital ratio required under "Pillar 1" (4.5%) and the additional own funds requirement under "Pillar 2" (5.75%), including the capital conservation buffer.

Any failure by Liberbank 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 *Real Decreto 1012/2015, de 6 de noviembre*, implementing Law 11/2015 (the "**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 (the "**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 September 2016, the Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities was published. 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 recognised the impact which this requirement may have on banks' funding structures and costs. At the date of this Prospectus, the level of capital and eligible liabilities required under the MREL has not yet been communicated to Liberbank. Any requirement on the Group's funding structures and costs could adversely affect the Group.

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2 The APS expired on 31 December 2016, and consequently the APS Assets ceased to be protected (see "*History and Development*").

Liberbank's results and consequently the CET1 ratio may be adversely affected by the proposed changes to the classification and measurement of financial assets arising from International Financial Reporting Standard 9—"Financial Instruments" (the "IFRS 9"), which will require the development of a methodology for calculating the expected credit losses for all types of exposures including forbore 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. In particular, this matter refers to the estimate of the provisions for insolvencies through the development of a method for calculating expected losses. In November 2016, the European Commission approved Commission Regulation (EU) 2016/2067, which adopted IFRS 9. In this sense, the Group is analysing the impact that this regulation may have on its consolidated financial statements. However, the Issuer considers the IFRS 9 could adversely affect the Group. These changes may become effective for the preparation of financial statements issued after 1 January 2018.

All of the above regulations and the approval of any other regulatory requirements could have an adverse effect on the Group's activities and operations, and most particularly affect the ability of the Issuer to distribute dividends. In addition, these regulations could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer.

***Exposure to construction and property development risk in Spain makes the Group vulnerable to fluctuations in the market price of real estate in Spain.***

A significant portion of the Group's assets is located in Spain, and therefore the Group is exposed in a number of ways to risks arising from fluctuations in property prices. At 31 December 2016<sup>3</sup>, gross property development loans totalled €1,449 million and a net amount of €913 million. The property development NPL ratio was 88.6% and the property development NPL coverage ratio was 41.7%. At that date, the portfolio of gross asset foreclosures totalled €3,425 million and a net amount of €2,078 million, of which €266 million are investment properties. The foreclosed assets coverage ratio was 39.3%.

At 31 December 2015, gross property development loans totalled €2,443 million (€291 million excluding loans covered by the APS) and a net amount of €1,732 million (€208 million excluding the APS Assets). The property development NPL ratio was 92.9% (mainly coming from APS Assets) and the property development NPL coverage ratio was 31.3% (not including the unused APS funds allocated to the credit). At that date, the portfolio of gross asset foreclosures totalled €3,025 million (€746 million excluding the APS Assets) and a net amount of €1,818 million (€410 million excluding the APS Assets). The foreclosed assets coverage ratio was 39.9% (not including the unused APS funds allocated to the foreclosed assets).

Prior to 2008, Spain's economic growth, a strong job market, demographic and social trends, its status as an attractive tourist destination and historically low interest rates drove up demand for housing, which in turn pushed up demand for loans in the property sector. This greater demand and the general availability of property financing led to a sharp rise in housing prices, and construction of additional housing stock. Following this boom, demand fell back in the last quarter of 2008, along with a sharp decline in the construction of new houses in Spain. Lower prices for houses or smaller volumes of sales in Spain cannot be ruled out, and this would reduce the value of the properties acting as collateral on mortgage loans, and the value of foreclosed assets in the portfolio. Consequently, lower prices for real estate assets in Spain impair the value of the Group's property portfolio as collateral on its property loans and credits, and thus any defaults increase the volume of "expected loss" on the loans and credits.

In relation to the lower value of property assets, the Spanish government approved a number of regulations which, among other measures, established new mechanisms for Spanish credit institutions to hedge against the impairment of real estate assets in Spain.

All of the above could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

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<sup>3</sup> The APS expired on 31 December 2016, and consequently the APS Assets ceased to be protected. See "History and Development".

***The nullity of so-called “floor clauses” and their resulting total retroactivity could have a negative impact on the Group.***

So-called “floor clauses” are clauses whereby the borrower agrees to pay a minimum interest rate to the lender irrespective of the prevailing interest rate. Ruling 241/2013 by Spain’s Supreme Court (*Tribunal Supremo*) declared some of these clauses null and void, although it did not affect all the existing clauses due to the variety of clauses which prevents applying the nullity to all of them. Pursuant to case law established by ruling 241/2013, Spain’s Supreme Court ruling 139/2015 concluded that when a “floor clause” is ruled to be abusive, and therefore inapplicable, the effects of nullity will not entail the return of the amounts paid from the signature date of the contract, but only as from 9 May 2013, the date of publication of ruling 241/2013, which meant to hold a partial retroactivity of the nullity.

ADICAE, a Spanish consumer organization, also filed a collective claim in connection with mortgage loan “floor clauses” against a large number of financial institutions in Spain, including the Issuer. On 7 April 2016, a Madrid Commercial Court ruled that a number of mortgage loan “floor clauses”, although legal *per se*, are abusive in terms of the insufficient information furnished to consumers and of a lack of transparency, and therefore inapplicable, compelling the financial institutions concerned to remove these “floor clauses” from contracts and to cease to use them in a non-transparent manner. The April 2016 ruling also compels the financial institutions concerned to return to borrowers any amounts, plus legal interest, which were received after 9 May 2013, the date of ruling 241/2013 by the Spanish Supreme Court.

The April 2016 ruling adhered to the case law handed down by the Spanish Supreme Court’s ruling 241/2013 and, accordingly, bases its findings on the legality of the “floor clauses” and on the fact that, despite the acknowledgement of these as an essential feature of a contract, they may be subjected to inspections of contents or abusiveness if they demonstrate any lack of transparency. Passing transparency inspections means that customers were made aware that “floor clauses” had been included in their contracts, and also understood the economic consequences of such inclusion. The April 2016 ruling concluded that “floor clauses” were all null and void and that consumers who were party to contracts containing these clauses were entitled to request its removal in the event case of insufficient transparency. To this extent, an individual appraisal must be conducted of the transparency of “floor clauses” in each contract. The April 2016 ruling by the Madrid Commercial Court, however, is not a final ruling since it was appealed by the plaintiff (the Spanish consumer organization) and some of the banks concerned.

Following consultation by a number of Spanish courts, the EU Court of Justice also commenced proceedings on the retroactivity of the nullity of these “floor clauses”. The case was heard on 26 April 2016, involving the United Kingdom, the three banks concerned (Kutxabank, BBVA and Banco Popular) and the Kingdom of Spain, which supported the interpretation of Spain’s Supreme Court in ruling 241/2013. However, the European Commission took the opposing view, i.e. in favour of absolute retroactivity. On 21 December 2016, the EU’s Court of Justice declared that Spanish case-law placing a temporal limitation (i.e. 9 May 2013) on the effects of the invalidity of “floor clauses” included in mortgage loan contracts in Spain is incompatible with the Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts, to the extent that such temporal limitation is an incomplete and insufficient protection to consumers and is not an adequate and effective manner for preventing the use of unfair terms.

On 20 January 2017, the Spanish Government approved *Real Decreto-Ley 1/2017, de 20 de enero*, on urgent measures to protect consumers related to floor clauses (the “**RDL 1/2017**”). The RDL 1/2017 encourages out-of court settlements between financial institutions and those borrowers affected by certain “floor clauses”, and mainly aims at avoiding an eventual overcrowding of Spanish Courts by establishing measures that discourage borrowers from going to court. However, financial institutions and borrowers involved are not obliged to reach an agreement, in which case borrowers affected could file claims against financial institutions, including Liberbank, which could adversely affect the Group. The Issuer has implemented the procedure contained in the RDL 1/2017 by creating a specific unit to inform affected borrowers of the existence of floor clauses in their loans, address any claims that may be brought by them and, if appropriate, negotiate with them on a case by case basis.

At 31 December 2016 and 2015, Liberbank’s mortgage loans to individuals in standard situations with active “floor clauses” showed an outstanding balance of €1,339 million and €2,544 million, respectively, accounting for approximately 5.8% and 10.4%, respectively, of the Group’s gross loan portfolio.



It is uncertain and the Issuer cannot anticipate the final negative impact that the potential nullity of the “floor clauses” included in the Group’s mortgage loans may have on the financial position of the Group. The Issuer estimates that the full retroactivity of the nullity of the “floor clauses” could entail Liberbank returning interest to consumers in a total amount of up to approximately €183 million. In making this estimate, the Issuer has taken into account outstanding mortgage loans with active “floors clauses” as of 31 December 2016, excluding loans relating to employees, NPLs and certain other hypotheses, assumptions and premises as considered reasonable. At 31 December 2016 and 2015, the Issuer made provision for this item in the amount of €183 million and €83 million, respectively.

All the above could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

### ***Reputational risk***

This risk is particularly relevant to financial institutions due to the fact that the nature of their business requires that they maintain the confidence of customers, creditors and the market in general.

Even though the Group seeks to maintain a policy of selecting staff based on their honesty and capability, the Group is inevitably affected by risk to its reputation due to potential misconduct.

There may also be factors beyond the Group’s control, such as misdeeds by entities or individuals, or scandals in the financial sector in general, which could lead to the creation of a negative image or negative positioning in the minds of clients, such that clients would lose confidence in the Issuer due to a loss of credibility in the sector. All this could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

The Group companies are subject to regulations in connection with anti-money laundering and the financing of terrorism. Ensuring compliance with these regulations entails a major burden on the Group, and involves technical difficulties. Although the Issuer believes its policies, measures and procedures are sufficient to meet applicable legislation, it cannot guarantee full elimination of the risk of money laundering or the financing of terrorist activities. Any of these circumstances could have serious consequences, including penalties, fines, and most particularly reputational consequences, which could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

### ***Any downgrade in the credit ratings of Spain or the Issuer could have an adverse effect on the Group***

The Issuer is a financial institution operating principally in Spain. Like other banks operating mainly in Spain, its returns and liquidity could be affected by the economic and market conditions affecting Spain and other EU member states. In recent years, a number of European countries, including Spain, showed high levels of public debt or fiscal deficits, or both, which led to tensions in international capital markets and interbank lending, as well as exchange rate volatility. In addition, some EU countries experienced significant increases in the cost of funding which, in the case of Greece, Ireland and Portugal, led them to seek financial assistance from the European Commission. Spain has considerably increased its debt levels in recent years, and thus a downgrade in Spain’s creditworthiness could increase the cost of refinancing debt as the result of an increase in its risk premium. The Issuer’s debt portfolio is mainly composed of issues by the Spanish government (23.8% and 28.4% of total assets at 31 December 2016 and 2015, respectively).

Additionally, political uncertainty could affect the Issuer. The growth of anti-EU political parties and the emergence of political formations in EU member states with alternative economic policies and priorities; international tension created by the conflict in Syria, among others; the financial situation and uncertainty on the international front; geopolitical tension in the Middle East; fears concerning independence movements within the EU; and terrorist and military action in Europe and other parts of the world could affect the economic situation in the Eurozone, particularly in Spain, and exert a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

The following table shows the current credit ratings assigned to Liberbank, both long- and short-term, by the credit rating agencies Fitch Ratings España, S.A.U., Moody's Investors Service España, S.A.U. and DBRS Ratings Limited.

| <b>Credit Rating Agencies</b>                           | <b>Long term</b> | <b>Outlook</b> | <b>Short term</b> | <b>Date of last rating review</b> |
|---|------------------|----------------|-------------------|-----------------------------------|
| Fitch Ratings España, S.A.U. <sup>(1)</sup>             | BB               | Stable         | B                 | 05/05/2016                        |
| Moody's Investors Service España, S.A.U. <sup>(1)</sup> | B1               | Stable         | NP                | 06/10/2016                        |
| DBRS Ratings Limited. <sup>(1)</sup>                    | BBB (low)        | Stable         | R-2 (middle)      | 20/06/2016                        |

(1) Registered with ESMA in accordance with the provisions of EC Regulation No. 1060/2009 of 16 September 2009, by the European Parliament and Council, on credit rating agencies and subsequent modifications.

Given the concentration of the Group's business in Spain, and regardless of recent improvements in the credit rating of Spain and its stable or positive outlook, a decline in the credit rating of the Issuer or Spain could increase its funding costs, limit its access to capital markets, negatively affect its sales and marketing of products, affect the Group's ability to carry out commercial transactions (particularly long-term transactions or derivative transactions) and its ability to retain clients. Any of these factors could adversely affect the liquidity of the Group, and could have a material adverse effect on its business, prospects, results of operations and/or financial position.

#### ***Future stress tests could determine new capital requirements for the Issuer***

Capital stress tests have become particularly important as a tool for dynamic assessment of the risks and solvency of banks. The ultimate aim of capital stress tests is to conduct a comprehensive assessment of the risks and solvency of banks to determine potential capital requirements in the event these scenarios arise.

Pursuant to the CRD IV Directive, the relevant authorities in coordination with the EBA will subject the banks they supervise to stress tests at least once a year. The results of this supervisory task, which has been detailed to the ECB in coordination with national authorities, will be taken into account in the SREP and will, therefore, have an impact on the decision to establish the prudential requirements for each financial year.

Stress tests have been carried out during the 2016 fiscal year by the EBA on a sample of banks representing 70.0% of the EU banking system, the scope of which is complemented by tests conducted by the ECB (using the EBA methodology) on other major banks under the SSM, including the Issuer. As opposed to banks within the scope of the EBA, the results of these stress tests for banks not stipulated by the EBA, including the Issuer, will not be made public.

Any stress tests carried out in the future, including the macroeconomic scenarios and methodology employed in the tests, could determine additional capital requirements for the Issuer, which could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

#### ***The Group faces increasing competition in its sector***

The Spanish financial market in which the Group operates is highly competitive, and financial sector reforms have increased competition among both domestic and foreign financial institutions. The trend of consolidation in the banking sector has also created larger and stronger banks with which the Issuer must now compete.

The Group also faces increased pressure to meet rising customer demands to provide new banking products, and competitors who may be more familiar with the local market than the Group. If the Group is not successful in adopting new working approaches and methods for customer service to keep up with market trends, its capacity to successfully compete in the market segments in which it operates could be adversely affected.

In addition, the number of banking transactions conducted over the internet has grown in recent years and is expected to grow further. The Issuer may be unable to compete with other banks offering their customers "online" Internet services which are more efficient and wide-ranging than the services it currently offers to its own customers. If the Issuer is unable to retain its clients, preventing them from transferring part or all of their business to the competition, its business, financial condition and profits could be adversely affected.

Compliance with the Restructuring Plan (described below in *“If the Issuer were not to comply with the Restructuring Plan, it could be subject to resolution”*) also entails certain restrictions and commitments undertaken by the Issuer, such as limitations on the activities the Group may perform; a prohibition on making acquisitions; a reduction in the number of branches and employees; asset disposals and restrictions on expansion to areas outside the Home Regions and limitations on the size of the loan portfolio, among others. If the Issuer is unable to manage these restrictions and commitments in an efficient and timely manner, its ability to compete with other financial entities could be adversely affected.

The Group also faces significant competition in terms of approval of loans and mortgages. Competition for loans and mortgages mainly stems from other banks in Spain or other countries, mortgage companies, consumer credit businesses, insurance companies and other lenders or loan purchase companies. Growing competition could force the Group to lower the interest rates it applies to loans and mortgages, to the detriment of its returns. The Group also faces significant competition in securing deposits. Growing competition could force it to increase deposit rates, thereby impairing its profitability. If the Group does not succeed in maintaining and boosting its customer relations, it may lose part of its market share, incur losses in some areas or all areas of its business, or fail to attract new deposits or maintain existing deposits. All the above could have a material adverse impact on the Group’s business, financial condition and profits.

In addition to competing with other financial institutions, the Group also faces competition from more specialized entities in the financial sector and other sectors, such as investment service companies, companies offering credit to private parties (for some credit products), financial leasing, factoring corporations, investment managers and pension funds and plans, and insurance companies.

Finally, the Group also has non-traditional banking services competitors mainly based around new technology, where in some cases regulation is still pending implementation. These new competitors can offer more aggressive prices and rates, and can adjust their offer with specific products or services or new approaches to provide banking services. If the Group is unable to adapt its offer to changing trends within the sector, including technological changes, its business could be adversely affected.

All the above could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

#### ***The Group’s business is sensitive to interest rates***

Earnings from the Group operations depend to a large extent on levels of net interest income, or net interest margin, the difference between the income generated by financial assets bearing interest and expenditure on servicing bonds accruing interest. Net interest margin accounted for 48.4% and 54.1% of gross margin over the years ended 31 December 2016 and 2015, respectively.

Developments in interest rates are affected by a number of factors beyond the control of the Group, such as regulation of the financial sector in the markets in which it operates, the monetary policies implemented by the ECB and the political and economic situation in Spain and elsewhere, among other factors. Against the current backdrop of interest rates running at all-time lows, falling profitability on assets is outstripping the falling cost of deposits, which now appears to have almost run its course. This means that downward pressure is being brought to bear on margins in the finance sector, with the result that banks are compelled to seek alternative formulas in order to maintain levels of profitability through courses of action aimed at increasing revenues, mainly through commissions, and reducing their outlays. If the new structure of interest rates persists in the long term and the Group proves unable to properly adapt to the new situation, this could have a material adverse effect on its business, prospects, results of operations and/or financial position.

Differing sensitivities of items on the balance sheet to interest rate fluctuations on the market have a considerable effect on the spread between the average return on assets bearing interest and the average cost of servicing bonds accruing interest, and this could therefore have a considerable adverse impact on the Group’s net interest margin and operating results.

The Group’s net interest margin decreased by 8.1% year on year in 2016 against 2015. “Interest and similar income” and “interest expense and similar charges” fell by 20.2% and 42.9% respectively year on year between 2016 and 2015.

At 31 December 2016, the Issuer estimated that a 1.0% increase in market interest rates would have brought about an increase of €180.57 million (4.0%) in the Group’s economic worth (a decrease of €149.36 million, or

2.9%, at 31 December 2015). Similarly, a 1.0% decrease (with a 0.0% floor) in market interest rates could have increased economic worth at 31 December 2016 and 2015 by €109.41 million (2.4%) and €338.04 million (6.5%), respectively.

The Issuer also estimated that, in the event of a 1.0% increase in market interest rates, the rate-sensitive margin would have increased by €1.50 million at 31 December 2016 (it would have decreased €47.78 million at 31 December 2015). Similarly, in the event of a 1.0% decrease (with a 0.0% floor) in market interest rates, the rate-sensitive margin would have decreased by €5.32 million at 31 December 2016 (it would have decreased by €5.64 million at 31 December 2015).

Finally, an increase in interest rate trends could lead to an increase in defaults on loans and advances to customers (see—*“The Group is exposed to credit, counterparty and concentration risk given that a substantial portion of its portfolio is particularly sensitive to adverse developments in the economy, increasing the risk profile of its lending activities”*), reduce demand for loans and the ability of the Group to originate them. Thus interest rate fluctuations could have an adverse effect on the Group’s net interest margin, and a material adverse effect on its business, prospects, results of operations and/or financial position.

### ***Operational risks are inherent to the business of the Group***

The business of the Group is dependent on its ability to process a large number of transactions efficiently and accurately. The Group is exposed to a variety of operational risks including those resulting from process error, system failure, under-performance of its staff, inadequate customer services, natural disasters or the failure of external systems including clerical or record-keeping errors, or errors resulting from faulty computer, telecommunications or information systems, or from external events. Given the Group’s high volume of transactions, errors may be repeated or compounded before they are discovered and rectified, and there can be no assurance that risk assessments made in advance will adequately estimate the costs of these errors.

The Group is also exposed to the risk of business disruption in the event of an interruption in communications or power supply, equipment or information systems error, or in the case of disasters such as earthquakes, fires, explosions or floods. Despite the precautions taken with regard to this risk, it is not always possible to avoid or prevent technological or operating errors, and the Group could incur losses in excess of its insurance coverage.

Likewise, IT systems are exposed to a number of problems such as malfunction of hardware and software, computer viruses, hacking and attacks on computer systems. IT systems must be upgraded on a regular basis, and the Group or the finance sector may not be able to implement the necessary upgrades after the proper fashion, or the upgrades may not function as they should. Failure to protect operations by the Group and the finance sector against cyberattacks could also entail the loss of data, or compromise customer data or other sensitive information. These attacks are increasingly sophisticated, and there is no guarantee that the Group or the finance sector can prevent all failures, incursions and other attacks on their systems. In addition to the costs that may be incurred as a result of any failure in IT systems, the Group and the finance sector may face fines by bank regulators if they fail to comply with banking regulations or the information applicable.

Any error that causes the Group’s services to be interrupted or slows down response capacity could damage its reputation, business and brands, and could also cause clients to reduce or terminate their use of its systems. In such circumstances, the redundant systems or disaster recovery plans that the Group have in place may not be sufficient or adequate. Although, the contracts the Group sign with service providers require that they have disaster recovery plans, the Group cannot be certain that these plans will be adequate or properly executed. Nor can the Group be sure it will be able to properly respond to problems that may arise with its systems.

The safe transmission of confidential information is a fundamental aspect of its operations. The Issuer cannot guarantee that current security measures can prevent a breach of its security systems, such as those caused by robberies, computer viruses or other situations. Any person who bypasses the Group’s security measures could make illicit use of its confidential information or that of its clients, thus exposing the Group to losses, disciplinary actions and lawsuits.

The Group could be subject to claims, including for breach of contract or other obligations, by clients seeking to recover significant damages they may incur due to any error, omission, malfunction, system error, security breach or disaster. The Group could also be subject to claims for losses or damages, as well as fines and disciplinary penalties, in the event of delays or omissions in processing and recording transactions, or serious violations of internal controls. This could be financially detrimental and damage its reputation. All the above could have a material adverse effect on the business, prospects, results and/or financial position of the Group.

***The Group is exposed to legal and regulatory claims that may arise from its business, some of which may be substantial.***

Group companies are exposed to legal and regulatory claims arising as a result of the ordinary course of their activities and businesses. In addition, Group companies are party to other legal proceedings, such as the DGF's claim against BCLM amounting to €40 million (see "*Description of the Issuer—Legal and other proceedings*"). In the future, Group companies may be subject to claims and lawsuits by government and regulatory authorities, including tax and labour authorities, as well as labour disputes and legal proceedings with other third parties, including claims derived from the outstanding mandatory convertible bonds, mortgage costs related to mortgage loans, etc. If any of these legal claims or proceedings is not resolved in favour of the Group companies, the business, prospects, results of operations and/or financial position of the Group may be adversely affected.

***Risk of not recovering certain tax assets of the Group***

As of 31 December 2016 and 2015, the Issuer had deferred tax assets in the amount of €1,763 million and €1,864 million, respectively. These assets or tax credits are derived principally from (i) non-deductible accounting expenses for a given tax year, but that could be deducted in the future (estimated taxes); (ii) negative taxable basis for corporate tax due to losses in a given fiscal year; and (iii) certain corporate tax deductions that cannot be applied to a given fiscal year if the tax basis for the tax is negative.

The Group's ability to recover these tax assets in the future is subject to different time limitations depending on the origin of the asset (15 years for deductions pending application governed by Law 27/2014, dated 27 November, on Corporate Income Tax ("CTL"), except for the deduction for research and development & innovation; the offsetting term being 18 years). However, there is no time limit to offset negative tax bases and deductions to prevent international double taxation. Furthermore, the eventual recovery of these tax assets is subject to or limited by the occurrence of certain factors, such as obtaining sufficient profits, the non-reduction of the corporate tax rate or errors or discrepancies with the Spanish tax authorities in the settlement of said tax.

Therefore, in the event that (i) the Group does not generate profits (or they are insufficient) within the time established by law to offset non-monetisable tax credits; (ii) the corporate tax rate is reduced; (iii) errors or discrepancies are detected in tax returns as a consequence of audits undertaken by the Spanish tax authorities; or (iv) there are changes in current regulations, or their application or interpretation, the Issuer could be totally or partially restricted from recovering the amount of these tax assets, which could have a material adverse effect on its business, prospects, results of operations and/or financial position.

In accordance with the provisions of the CTL, of the €1,763 million in deferred tax assets referred to above, the Issuer estimates that approximately €1,210 million would be converted to government debt securities (monetisable) if, after 18 years (from 31 December 2014 or from the accounting record of the tax asset if after said date) said tax assets have not been recovered. In this respect, the Issuer paid the financial contribution contained in the thirteenth additional provision for CTL, amounting to €12.9 million in 2016.

***The Group is exposed to market risk associated with fluctuations in bond and equity prices and other market factors inherent to its business.***

The Group is exposed to the market risk due to their activities in financial markets and the management of its assets and liabilities. At 31 December 2016, the exposure of the Group to the market risk was €7,155 million in debt securities and €18 million in listed equity securities. At 31 December 2015, the exposure of the Group was €8,180 million in debt securities and €54 million in listed equity securities. Almost all of debt securities exposed to the market risk are concentrated in public debt, 59.0% in the Spanish state, 23.0% in other states of the Economic and Monetary Union ("EMU") and 16.0% in governmental agencies, autonomous regions and bonds guaranteed by the Spanish state (at 31 December 2015, 80.0% in the Spanish state, 4.0% in other states of the EMU and 14.0% in governmental agencies and autonomous regions).

Therefore, the Issuer is exposed to the risk of significant losses as a result of unfavourable movements of factors such as the interest rate curve, interest rate volatility, debt- and equity-market liquidity, the financial condition of issuers and investors and credit ratings. All this may cause a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

Further, some of the Group financial investments are not listed on exchanges or other official secondary markets. The Issuer may use alternatives to market prices to value such assets. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for the Group in the case of any asset devaluations.

A standard market measurement for appraising market risk is the Value at Risk (“**VAR**”) analysis. At 31 December 2016, the value at risk of the listed “debt securities” and “equity investment” portfolio (excluding the held-to-maturity portfolio and the loans and receivables portfolio) exposed to market risk on a 10-day timeline and with 99.0% confidence level was €62 million. Taking into account the exemption provided for under the Circular 2/2014 of the Bank of Spain regarding the non-calculation of the capital gains and losses arising from the valuations of the portfolio held for sale in the regulatory capital, VAR for regulatory purposes as of this date would be reduced to €34 million. At 31 December 2015, the VAR was €87 million i.e. on average, 99 out of 100 times, real losses from the securities portfolio would be lower than those reflected by the VAR.

***If the Issuer were not to comply with the Restructuring Plan, it could be subject to resolution***

In accordance with the provisions of *Ley 9/2012, de 14 de noviembre*, on the restructuring and resolution of credit entities (“**Law 9/2012**”), the Bank of Spain and the European Commission approved on 19 and 20 December 2012, respectively, the restructuring plan for the Issuer (the “**Restructuring Plan**”), which specifies the strategy proposed for the recapitalization and restructuring of the Issuer. The Restructuring Plan provided for a generation of between €1,198 million and €1,384 million of capital. The recapitalization and restructuring measures were grouped into four large areas: (i) a liability management exercise to exchange preference shares and subordinated debt securities for newly issued equity securities to private shareholders; (ii) transfer of real estate-related assets to *Sociedad de Gestión de Activos Inmobiliarios procedentes de la Reestructuración Bancaria* (“**SAREB**”); (iii) market disposals of non-core assets and businesses; and (iv) issuance by the Issuer of contingent convertible bonds (“**CoCos**”) underwritten by the Fund for Orderly Bank Restructuring (“**FROB**”) for an amount of €124 million. The measures contained in the Issuer’s Restructuring Plan executed during 2013 and 2014 enabled generating shareholder capital, according to Oliver Wyman’s methodology, exceeding the additional shareholder capital required in the Restructuring Plan.

On 27 October 2014, the board of directors of the Issuer agreed the repurchase and early amortisation of the entire issue of the CoCos amounting to €124 million. On 23 December 2014, the Group published in the CNMV’s website the early amortisation of the entirety of these bonds, after having received the necessary authorisations. This repurchase was carried out in cash. In addition to the measures mentioned above, during 2014, the Issuer carried out an increase of capital generating an increase of share capital and an issuance premium amounting to €575 million.

The compliance with the Restructuring Plan entailed certain restrictions and commitments assumed by the Issuer, such as commitments regarding the size of the credit portfolio, the Group’s balance sheet, the loan-to-deposit ratio, the disinvestments in equity capital, etc., commitments that, at the date of this Prospectus, are being complied with according to its terms and conditions. In the highly competitive environment in which the Issuer operates, these restrictions and commitments might position the Issuer, under certain assumptions, at a disadvantage compared to other credit institutions. If the Issuer is not capable of managing these restrictions and commitments effectively and appropriately, the business, prospects, results of operations and/or financial position of the Group might suffer a material adverse effect.

If, according to the provisions of *Ley 11/2015, de 18 de junio*, on recovery and resolution of credit institutions and investment firms that transposes Directive 2014/59/UE to the Spanish legal system and which currently contains the valid legislation on this topic inasmuch as Law 9/2012 has been partially repealed, the Issuer were to incur in a gross breach of the term or the measures contained in the Restructuring Plan, among other scenarios, the ECB and the Bank of Spain, as supervising entities, and on its part, the FROB, as the executive authority for resolutions, may impose corrective measures, including, as a last resort, the resolution of the Issuer if its business is regarded as not viable.

***The Group may suffer a material decline in fee- and other commission-based income***

The net consolidated income of the Group in concept of net income from the provision of services reached €182.2 million at 31 December 2016 and €182.8 million during 2015, which represented 19.4% and 20.0% respectively, of the gross consolidated margin of the Group at 31 December 2016 and 2015, respectively. Declines in capital markets performance and increased competition generally bring about a reduction in the number of transactions conducted on behalf of clients and thus, a reduction in income from fees.

Additionally, as indicated in “*The Group’s business is sensitive to interest rates*”, if the current interest rate structure (in historical minimums) were to remain in the long term, it could require an increase in the volume of income in the form of charges. Therefore, the Issuer could be forced to increase the number of transactions subject to fees or the amount of the fees currently collected from its clients.

Similarly, the Group's activity requires a good ability to anticipate events and adapt to technological innovations. In this respect, a poor adaptation to said advances may limit the provision of services to clients.

If the Group were to suffer a significant reduction in income due to a drop in the services offered and charges collected, or be unable to adjust, if necessary, its charges policy to the new interest rate structure, its business, prospects, results of operations and/or financial position may suffer a material adverse effect.

***If the Group were to suffer from a lack of liquidity, it could be forced to pay more for funding or to modify its credit practices.***

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

Immediate access to funds is essential for any banking business and the Issuer is no exception. The capacity of the Group to obtain funds or have access to them can be jeopardised by external factors, such as the general market conditions, a change in financial markets or a negative outlook for the sectors to which it grants a large number of its loans. This could in turn generate a negative outlook for the liquidity of the Group among creditors, resulting in lower credit ratings, higher borrowing costs and less access to funds.

In the event of further deterioration of international capital markets or if the Issuer's credit rating decline, it may not be able to obtain funding from its current sources. Since the Issuer is a Spanish credit institution, a deepening of Spain's sovereign debt crisis, or of the Spanish financial system's difficulties, could have a negative impact on its credit ratings and increase its financial costs. A fundamental part of the Group's liquidity management strategy entails access to capital markets. Not being able to guarantee access to resources at advantageous interest rates on these markets could affect the solidity of its liquidity profile and have a material adverse effect on its business, financial condition, and results of operations. As liquidity sources, such as the extraordinary measures adopted by the ECB, and economic growth policies are eliminated from the market, the Issuer could face difficulties in continuing to finance its business or maintain financing levels without incurring greater financing costs or having to liquidate part of its assets. At 31 December 2016 and 2015, the financing with the ECB amounted to €2,938 million and €2,345 million, which represented 7.7% and 5.6% respectively, of the assets of the Group's balance sheet.

One of the main sources to generate funds is from deposits made by individual clients. At 31 December 2016, 83.7% of the total consolidated liabilities of the Group were client deposits. During 2016, retail resources increased by 1.7% compared to 31 December 2015, and the resources from individuals increased by 1.6% thanks to the strengthening of investment funds. At 31 December 2015, 87.5% of the total consolidated liabilities of the Group were client deposits.

At 31 December 2016, the Group presents a negative short-term gap ("on demand") of €14,312.7 million, characteristic of retail banking where an important part of its liabilities is formed by liabilities on demand, for which the historical behaviour indicates a high degree of stability. Liquidity gaps present a negative balance in the term of "up to 1 month" amounting to €2,166.7 million; in the term of "between 1 and 3 months" amounting to €479.7 million; and in the term of "between 3 and 12 months" amounting to €1,294.3 million, mainly due to the high weight of clients' fixed term deposits that also present a high degree of stability historically.

Notwithstanding that, at 31 December 2016, the loans-to-deposits ratio of the Group was 85.9% compared to the 88.8% at 31 December 2015, in the current economic context, the Issuer cannot guarantee it will be able to meet its liquidity needs or meet them without incurring higher costs to obtain liquidity or have to liquidate part of its assets in the event of there being pressure on its liquidity for any reason, which may cause a negative impact on the interest margin of the Group, as well as material adverse effect on its business, prospects, results of operations and/or financial position.

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 consolidated LCR of the

Group at 31 December 2016 and 2015 was 405% and 391%, respectively. Additionally, the consolidated NSFR (ratio that will become a minimum standard by 1 January 2018) of the Group at 31 December 2016 was 132%.

***The Group's business is exposed to regulatory and legal risks inherent thereto***

Due to the sectors in which the Group operates, all its operations entail a significant regulatory and legal risk. Given its condition as a financial institution, the Issuer and a large part of its subsidiaries are subject to the applicable regulation and the supervision of the public bodies in the markets in which they operate. The applicable regulation can be very broad and rapidly changing. The Issuer is subject to the regulation of the EBA, the ECB, the Bank of Spain, the CNMV and the Directorate General of Insurance and Pension Funds. Similarly, many of its operations require a licence issued by the corresponding financial authority, which is usually subject to compliance with the applicable provisions at all times. The revocation, suspension or modification (including the enforcement of new or more burdensome conditions) of any of these licences, be it for a change in the law, a breach of the stipulated conditions or any other cause, as well as the enforcement of other penalties for such reasons, may substantially and negatively affect the business, the financial condition and the operating result of the Group.

Moreover, the current legislation and regulation (including tax regulations) may suffer changes, the way these are applied or interpreted may change, and new laws and regulations may be approved, which may entail significant costs. This, added to other restrictions and limitations to the activity carried out by financial institutions enforced by the new laws together with any related cost, may substantially and negatively affect the business, the financial condition and the operating result of the Group. In this respect, in relation to the financial reporting framework applicable to the Issuer (the IFRS-EU), over the past years, the issuer of these standards (International Accounting Standard Board) has been adopting a significant number of new standards and interpretations, and reviewing and modifying existing standards, which is expected to continue in future. Said modifications may significantly affect the financial and equity situation of the Group.

***Employees of the Group may commit errors, fraud or other illicit activities***

Banking activities involves regular processing handling of large sums of money, which increases the risk of theft, fraud or deceit by clients, third parties, employees and/or directors. The Group could become subject to claims for damages due to negligence or other inappropriate acts or omissions, and penalties for errors committed by its employees. In particular, legislation on the subject of economic crimes, including money laundering and financing terrorist activities, has become considerably stricter in many countries, including Spain, with consequences that are ever more severe for the financial institutions involved in these activities. Thus, financial entities depend largely on the honesty, integrity and competence of a large number of employees.

The Group has a wide range of systems, procedures and organisational structures for risk management, through which it seeks to avoid fraud or the illicit use of money. Nevertheless it is impossible to entirely eliminate risks of this kind, and despite its risk management procedures, money under its control may be use inappropriately or illegally. If there is inappropriate or illicit use of money, the Group may be subject to liability to clients, or be exposed to administrative penalties, adverse publicity, damaged reputation and loss of clients, among other consequences. All this could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

***The insurance coverage of the Group may not adequately cover losses resulting from the insured risks***

The Group companies maintain 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. Given the nature of their operations and the nature of the risks it may have to face, the Group cannot guarantee that the insurance policies taken out will cover the entirety of the losses compared to what it believes to have covered, or be capable of renewing its insurance policies under acceptable economic terms, which could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

***Exposure to the insolvency risks of other financial institutions***

The Group regularly carries out transactions with other financial institutions, including brokers and dealers, commercial banks, investment banks, fund management firms and other institutional clients. Bankruptcy and mere rumours on the insolvency of some financial institutions have led to liquidity problems in the sector that



may, in turn, entail losses or bankruptcies in other entities. These liquidity problems have caused and may continue to cause, in general, a severe contraction of interbank operations. The bankruptcy of an important counterparty or liquidity problems in the financial system could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

Moreover, one cannot guarantee that, in the event of a sudden or unexpected withdrawal of deposits or a lack of funds of the banking systems or the monetary markets in which it operates, the Group will be capable of maintaining the current levels of financing without incurring in additional financing costs or without having to liquidate some of its assets.

***The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel to implement its strategy.***

The Group's continued success depends in part on the continued service of key members of its management team as well as key managers of the Group's businesses units. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The financial industry has and may continue to experience more stringent regulation on employee compensation, which could have an adverse effect on the Group's ability to hire or retain the most qualified employees. If the Group or one of its business units or other functions fails to staff the Group'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, prospects, results of operations and/or financial position could have a material adverse effect.

***The Group's economic hedging may not prevent losses***

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

***The Group is exposed to unidentified and unforeseen risks***

The Group's risk management strategies may fail in certain circumstances, especially when it must face risks that had not been identified or foreseen. It is possible that the risk evaluation methodologies and techniques adopted to determine the image, interest rate, credit, market and operation risks bear errors or do not consider all the risks. It is also possible that the methods used to evaluate these risks are not accurate and correct or are based on incorrect data or the Group's employees fail to interpret them correctly, do not put them into practice properly or apply them in error. In addition, the Group continuously review and update its risk management policies and procedures, and it may face delays in implementing these updates. Any error arising from the risk management techniques could have a material adverse effect on the business, prospects, results of operations and/or financial position of the Group.

**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.***

The implementation of Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”) in Spain through Law 11/2015 and RD 1012/2015 has provided the FROB, the European Single Resolution Mechanism 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**”) 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 any 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 occur, 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 the Issuer'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, at the date of this Prospectus, the EBA 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 case 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 to, among other things, 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 contained in the BRRD are met.

Pursuant to Law 11/2015, the adoption of any early intervention or resolution procedure will 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 will 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 contained in the BRRD. 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 the Issuer. In accordance with the provisions of article 63 (e) of the CRR (as defined below), the Notes are neither secured, nor subject to a guarantee that enhances the seniority of the claim by the Issuer, its subsidiaries or any undertaking that has close links with the Issuer or its subsidiaries. Although the Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a greater risk that an investor in the Notes will lose all or some of its investment should the Issuer become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and RD 1012/2015) and the Notes become subject to the application of the Spanish Bail-in Power (including Non-Viability Loss Absorption) or (ii) insolvent.

In the case of any exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, the sequence of any resulting write-down or conversion of the Notes under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for the principal amount of Tier 2 instruments (such as the Notes) to be written down or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 Capital in accordance with the hierarchy of claims provided in Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de julio, Concursal*) (the “**Insolvency Law**”) and for the latter to be

written down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any eligible liabilities, in accordance with the hierarchy of claims provided in the Insolvency Law. The Notes may be subject to Non-Viability Loss Absorption, which may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power. See “—*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, read in conjunction with Additional Provision 14.2° of Law 11/2015, after payment in full of unsubordinated claims but before distributions to shareholders as a consequence of their condition of equity holders, the Issuer 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° 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 Conditions 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 debt 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.***

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

Pursuant to the CRR, the Issuer is prohibited from including in the Conditions terms that would require it to redeem such Notes prior to their stated maturity at the option or request of Noteholders. 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 in respect of the approval of the Regulator and the other conditions 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 Call Date (see Condition 6.2 (*Redemption at the option of the Issuer (Issuer Call)*)).

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.

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 demonstrates 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.

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 at least equal to the return on the Notes. 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 contain provisions which may permit their modification without the consent of all investors***

The Conditions 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 or Spanish law or administrative practice***

The Conditions (except for Conditions 2.3 and 3, which are construed in accordance with Spanish law in effect at the date of this Prospectus) are governed by and shall be construed in accordance with English law. No assurance can be given as to the impact of any possible judicial decision or change to English or Spanish 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. See also “—*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*”.

#### ***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 (“**RD 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 RD 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%) if the recipient of the payment is an individual resident in Spain for tax purposes and subject to Spanish Personal Income Tax (“**PIT**”). 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 RD 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 PIT taxpayers; and
- (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%.

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 10<sup>th</sup> 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 Consolidated Text of the law on Non-Resident Income Tax (“**NRIT**”), approved by Royal Legislative Decree 5/2004, dated 5 March 2004 (the “**Spanish NRIT 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.

#### ***The Proposed Financial Transactions Tax (the “FTT”)***

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**Participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s proposal has a 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.

***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 or may suffer losses when selling the Notes.

***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 the Issuer. 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, 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.***

The Issuer 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 the Iberclear members 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 above.

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.***

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 the Issuer 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). Moreover, actual or anticipated decline in the Issuer’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.

***Spanish insolvency law may provide investors with less protection than insolvency laws of other jurisdictions***

The Issuer and other members of the Group are incorporated under the laws of Spain. Accordingly, insolvency proceedings with respect to any of those entities would be likely, although not necessarily to proceed under, and be governed by, Spanish insolvency law. Spanish insolvency law may not be as favourable to investors as the laws of the United Kingdom or other jurisdictions with which investors are familiar. In the event that the Issuer experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings. Potential investors should consult their own legal and accounting advisers before investing in the Notes. See “—*An investor in the Notes assumes an enhanced risk of loss in the event of the Issuer’s resolution or insolvency*” above.

***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 300,000,000 Fixed Rate Reset Subordinated Notes due 14 March 2027 (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 Liberbank, S.A. (the “**Issuer**”), passed on 13 December 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 21 June 2012 (the “**Agency Framework Agreement**”) and an Annex to the Agency Framework Agreement dated 14 March 2017 (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 14 March 2017 (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. (Madrid 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, S.A. Sociedad Unipersonal*);

“**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 from 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, all as amended or supplemented;

**“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, as amended or supplemented, or such other regulation as may come into effect in place thereof;

**“Closing Date”** means 14 March 2017;

**“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:
- (i) 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
  - (ii) 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 6.875 per cent per annum;

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

“**Interest Payment Date**” means 14 March 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 6.701 per cent per annum;

“**Maturity Date**” means 14 March 2027;

“**Noteholder**” has the meaning given in Condition 2.3 (*Form, Denomination and Title—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 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, Denomination and Title—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 14 March in each year;

**“Regulator”** means the ECB 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 14 March 2022;

**“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. (Madrid 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 0.174 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; and

“**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 €300,000,000. 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, an account with Iberclear or an Iberclear member 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*) has assigned the following ISIN to identify the Notes: ES0268675032. The Common Code for the Notes is 157903969.

### **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 member 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

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 the provisions of article 63 (e) of the CRR, the Notes are neither secured, nor subject to a guarantee that enhances the seniority of the claim by the Issuer, its subsidiaries or any undertaking that has close links with the Issuer or its subsidiaries.

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 92.3° 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 in respect of principal;
- (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 92.3° 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 in respect of principal; 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 92.2° 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 in respect of principal.

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 in respect of principal 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 14 March 2018 (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) 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. (Madrid 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 on the Maturity Date at its outstanding principal amount together, if appropriate, with interest accrued to (but excluding) 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, but not some only, of the Notes then outstanding on 14 March 2022 (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 any Relevant Jurisdiction 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, any Subsidiary of the Issuer or any agent on its behalf 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 12 (*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.

All Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may, subject to obtaining prior supervisory permission therefore, if required, be held, reissued, resold or, at the option of the Issuer, cancelled.

## **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 (*Taxation*).

## **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.

No modification to these Conditions shall become effective unless (if and to the extent required at the relevant time by the Regulator) the Issuer shall have given at least 30 days' prior written notice thereof to, and received consent therefore from, the Regulator (or such other period of notice as the Regulator may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such consent). If there is a requirement to give notice to and obtain consent from the Regulator, the Issuer shall ensure that any such notice is given promptly following a relevant meeting of the Noteholders.

## **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 (*Form, Denomination and Title—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, and shall be construed in accordance with, 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 Law Debenture Corporate Services Limited 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 Law Debenture Corporate Services Limited 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 acknowledgement by each Noteholder set forth in this Condition 15 will only apply if English law is no longer deemed to constitute the law of an EU 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) to modify 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 (*Governing Law and Submission to Jurisdiction—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 (g) 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 (c) 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 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 procedures by the Spanish Central Registry applicable to book-entry notes such as the Notes.

Notwithstanding this summary, that the Spanish Central Registry of securities transactions is undergoing a significant reform to align it with the practices and standards of European regulations and prepare it for the implementation of future integration projects.

Law 32/2011, of 4 October, which amends LMV, anticipated and set the master plan of the future Spanish Central Registry 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 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. Since October 2016, transactions affecting debt securities settled through Iberclear are generally settled two business days after they have been made.

The Spanish Central Registry has been recently adapted by Law 11/2015 and Royal Decree 878/2015 (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*) to the provisions set forth in Regulation 909/2014, which further the reform of the Spanish Central Registry of securities transactions.

As of the date of this Prospectus, the procedures for fixed-income securities remain practically the same.

The reform of the Spanish Central Registry, which is expected to be fully implemented by 18 September 2017, introduces significant new features that affect all classes of securities and all post-trade activities and, following it, the Spanish Central Registry will allow the connection of the post-trading Spanish systems to TARGET2. In any case, this 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 Central Registry.

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 SCLV (*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 early 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.

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

## **Iberclear**

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 AIAF. 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% 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; and (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 in dematerialised form.

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 trading 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, meaning 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, an account with Iberclear or an Iberclear member 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

The Issuer is a Spanish public limited company (*sociedad anónima*) incorporated under the laws of Spain and, consequently, subject mainly to the legal regime established in 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 “**LSC**”)). As a financial institution, the Issuer is also subject to the supervision of the Bank of Spain and the specific rules and regulations of credit institutions, principally Law 10/2014 and other complementary legislation. Since November 2014, and after the launching of the SSM, the ECB took over the functions of prudential supervisor of the Issuer.

The Issuer has its registered office in Madrid, Spain, Camino de la Fuente de la Mora 5, 28050, and it was registered on 25 May 2011 at the Commercial Registry of Madrid, in volume 28,887, Section 8, sheet 1, page No. M-520,137, entry number 1. In addition, the Issuer is registered in the Special Register of Banks and Bankers of the Bank of Spain with code number 2048. In accordance with Article 4 of its bylaws, the Issuer carries out its activity for an indefinite term. Its telephone numbers are 902 830 902 for calls from Spain and (+34) 914 225 800 for calls from outside Spain.

The legal name of the Issuer is “Liberbank, S.A.”. The Group operates under the commercial name “Liberbank”, together with the commercial names “Cajastur”, “Caja de Extremadura”, “Caja de Cantabria”, “Banco de Castilla-La Mancha” and “CCM”, inter alia.

The Issuer was incorporated on 23 May 2011 and commenced operations in September 2011 (for accounting purposes, in January 2011), and is the result of the merger of Cajastur, Caja de Extremadura and Caja Cantabria (having been converted into banking foundations) (the “**Original Entities**”).

The Issuer is a Spanish financial institution which conducts most of its business in Spain, particularly in the regions of Asturias, Cantabria, Extremadura and Castilla-La Mancha (the “**Home Regions**”), as well as in Madrid. All the consolidated total earnings and assets of the Group are Spanish, although it has two branches in Mexico and the Dominican Republic.

In June 2012, the Spanish Government requested external financial assistance within the context of the restructuring and recapitalisation of the financial sector, which implied the obligation to carry out a valuation process or stress tests in the Spanish financial institutions.

The stress tests conducted in 2012 with respect to the Issuer concluded that it had a capital excess of €103 million in the base scenario and a capital deficit of €1,198 million in the “adverse” scenario. These results placed the Issuer in the so-called group 2 of financial institutions with capital needs that require a restructuring plan to be approved by the relevant authorities.

In accordance with the provisions of Law 9/2012, the Bank of Spain and the European Commission approved the Restructuring Plan, which specifies the strategy proposed for the recapitalisation and restructuring of the Issuer. The Restructuring Plan provided for a generation of between €1,198 million and €1,384 million of capital. The recapitalisation and restructuring measures were grouped into four large areas: (i) a liability management exercise to exchange preference shares and subordinated debt securities for newly issued equity securities to private shareholders; (ii) transfer of real estate-related assets to SAREB; (iii) market disposals of non-core assets and businesses; and (iv) issuance by the Issuer of CoCos underwritten by the FROB for an amount of €124 million. The measures contained in the Issuer’s Restructuring Plan executed during 2013 and 2014 enabled the generation of shareholder capital, according to Oliver Wyman’s methodology, in excess of the additional shareholder capital required in the Restructuring Plan.

Compliance with the Restructuring Plan entailed certain restrictions and commitments assumed by the Issuer, such as commitments regarding the size of the credit portfolio, the Group’s balance sheet, the loan-to-deposit ratio, the disinvestments in equity capital, etc., commitments that, at the date of this Prospectus, are being complied with according to its terms and conditions.

On 7 February 2013, the Governing Committee of the FROB, pursuant to the provisions of Law 9/2012, decided that the economic value of the Issuer, prepared in accordance with the procedures established by the FROB and on the basis of the valuation reports commissioned from three independent experts, was €1,113 million.

On 25 February 2013, in compliance with the obligation to transfer certain assets as established in Law 9/2012, RD 1559/2012 and the FROB agreement dated 15 February 2013, the Issuer entered into a contract to transfer the Group's assets to SAREB for a total price of €2,918 million. The effective date of transmission of the assets was 28 February 2013.

The transmission price and the perimeter of transferred financial and real estate assets were subject to a review process. In March 2016, SAREB and the Issuer amended the asset transfer agreement dated on 25 February 2013. After the corresponding price and perimeter adjustments, the total amended amount totalled €24.312 million. In April 2016, this amendment was carried out through a partial early redemption by SAREB of the Issuer's senior bonds, which was definitively settled in October 2016 through the payment of capital, interest, commissions, expenses and income recorded in financial and real estate assets returned to Liberbank.

Pursuant to the Restructuring Plan, the Issuer made a voluntary buyback offer for the hybrid capital and subordinated debt instruments. The offer was completed by the mandatory buyback carried out by the FROB in April 2013. As a result of the buyback offer made by the Issuer and the mandatory buyback carried out by the FROB to complete the Issuer's offering, the Issuer issued the following securities: (i) new ordinary shares of the Issuer for an aggregate amount of €457 million; and (ii) mandatory convertible bonds for an aggregate amount of €329 million.

At the date of this Prospectus, after conversion requests received in the corresponding conversion periods, there are mandatory convertible bonds currently outstanding for an aggregate amount of €186 million.

In the framework of the provisions in the Restructuring Plan, the Governing Committee of the FROB resolved, in April 2013, to fully subscribe the issue by the Issuer of CoCos for an amount of €124 million that were fully subscribed and paid by the FROB.

In October 2014, the board of directors resolved to buy back and effect early redemption of the totality of the issue of CoCos for €124 million. In December 2014, the Issuer carried out the early redemption of the totality of such bonds, subject to receipt of necessary authorisations. This buyback was settled in cash.

In January 2013, the general shareholders' meeting resolved, among others issues, to request the listing of the Issuer's shares on the Spanish stock markets. Following the completion of the hybrid management process included in the Restructuring Plan, the shares of the Issuer were admitted to trading on the secondary market in May 2013.

In May 2014, the board of directors resolved to implement two capital increases through two successive share offerings:

- (i) an accelerated bookbuilding offering for an aggregate amount of €100 million and simultaneous sale of shares of the Original Entities for an aggregate amount of €216.7 million; and
- (ii) a second capital increase with preferential subscription rights, which took place following completion of the accelerated bookbuilding, for an aggregate amount of €475 million.

In December 2015, the board of directors resolved to implement the reverse split of shares approved in the general shareholders' meeting of April 2015 consisting of the grouping and cancellation of the 2,715,624,366 shares comprising the share capital of the Issuer, in exchange for 905,208,122 new shares at a ratio of one new share for every three old shares, with an increase in the nominal value of the shares from €0.30 to €0.90 and the resulting reduction in the number of shares representing the outstanding share capital, with no modification in the total share capital.

The APS expired on 31 December 2016, and consequently the APS Assets ceased to be protected. On 5 February 2010, the DGF granted BCLM, a subsidiary of the Group, an APS in the amount of €2,475 million against a number of risks, such as credit risk, contingent risk and foreclosure risk. At 31 December 2016, the APS portfolio, which includes loans, write-offs, foreclosed assets and guarantees, totalled €5,614 million.

At 31 December 2016, the Group's CET1 phased-in ratio and the Group's risk-weighted assets (RWA) amounted to €2,253 million and €18,548 million, respectively. The risk-weighted assets had a significant growth in the year 2016 (an increase of €2,534 million compared to year 2015) due to the expiration of the APS.

## **The Issuer's Business Areas**

The Issuer has the following business areas:

### **COMMERCIAL BANKING AND CORPORATE BANKING**

Commercial Banking and Corporate Banking constitute the core businesses of the Group, whose activity is focused on the provision of financial and parafinancial services to individuals, companies and social not-for-profit entities.

The commercial strategy of the Group is based on a differentiated segmentation by type of customer, to whom it offers different products and services through various channels of distribution, with a differentiated model of service and value proposition, in accordance with the financial needs identified.

#### ***Customer types and segments***

At 31 December 2016, the Group had approximately 2.0 million active customers, which break down into 1.9 million individual customers and 0.1 million corporate customers.

The Issuer's commercial strategy is to differentiate individuals on the basis of their financial needs throughout their life cycle based on variables such as income and age. The combination of these variables determines the following macro-segments: high levels of wealth and high income, medium income, mass market, pensioners (aged over 65), youth (aged between 18 and 25) and children.

Regarding corporate customers, we classify companies in accordance with international standards, based on homogeneous characteristics and financial performance. This has established different groups on the basis of turnover and type of activity carried out.

By combining these segmentation and other specific criteria, the Group has developed a tailored offering adapted to the following customer groups with specific financial needs:

- **Private Banking:** The Group provides custom service to customers with the potential to make large contributions to the Group's business and results (high levels of wealth and high income), selected by their level of sophistication and level of resources.

At 31 December 2016, the Private Banking unit had 66 private banking managers based in 13 differentiated service centres, with extended hours, advanced financial and tax optimisation tools and a team of specialists in investment and tax supporting the sales work carried on by managers.

In this area, of particular importance are regulatory compliance issues relating to the Anti-Money Laundering and the MIFID Directive (the Market in Financial Instruments Directive), which unifies European regulation with regard to investment services in order to increase competition and protection of investors.

- **Corporate and Company Banking:** The Group has implemented a model of service for corporations, large and medium-sized companies and developers adapted to the needs and financial performance of each segment. The key elements of this service model are commercial proactiveness, reliability and quality of operation, with the goal of offering comprehensive solutions to customers that are companies.

In order to align the sales work with the Group's general strategy and foster greater knowledge of its customers' characteristics, needs and potential, the Issuer's specialised managers service a group of homogeneous customers differentiated by segment (corporate vs. large and medium-sized companies) and the sector (industrial customers vs. real estate developer customers).

At 31 December 2016, the Group had 70 specialised managers based in 18 premium company service centres in the main cities of the Home Regions, and in Madrid, Barcelona, Valencia and Seville.

In 2016, more than 6,600 customers received custom service from Corporate and Company Banking, which managed €2,450 million in customer funds and €7,450 million in assets.

- **SMEs:** The business model for this segment relies on a proximity-based relationship between the Issuer and its customers. This is made possible through the 393 full service branches with SME specialisation that are located across all the territories in which the Issuer operates.

The 491 staff dedicated to this segment provide products and solutions for the Issuer's SMEs regarding their financing and day-to-day banking needs. These services include, among others, the management and collection of supplier payments, electronic invoicing and the provision of credit facilities, among many other products designed specifically for the segment.

- **Agriculture/Livestock Sector:** This group consists of customers that are either individuals or legal entities that may be owners of food/agriculture/livestock operations, members of agricultural cooperatives, or are agricultural processing companies. This sector has strategic importance for the Group given its significance in two of its Home Regions (Castilla-La Mancha and Extremadura). In 2016, the Group assisted 6.6% of all applicants in Spain for funds through the EU Common Agricultural Policy, with 52,283 customer applications processed, according to data provided by the *Fondo Español de Garantía Agraria* (Spanish Agricultural Guarantee Fund), an autonomous entity under the Ministry of Agriculture, Food and Environment.

In order to address this sector's needs, the Group has an agriculture-livestock market unit which is responsible for identifying this group's needs, developing structured solutions, supporting commercial action throughout the network, and promoting the development of relationships with rural institutions, groups, and associations.

## **Products**

The Group offers a wide variety of financial products and services, including financing or asset products and savings/investment products, in the form of deposit and parafinancial products such as investment funds, pension plans and insurance.

### *Asset products*

These are credit transactions entered into by the Group's customers subject to approval of their applications by the risk admission departments.

The main asset products of the Group include<sup>4</sup>:

- **Mortgages:** loans for the acquisition of property, the guarantee for which is generally the property itself, or other tangible assets. This form of financing is adapted according to the applicant's ability to pay (fixed rate, variable, rising, etc.) and rates are set in accordance with the rating of each transaction (reactive scoring) and target risk-adjusted return on capital ("**RAROC**"). At 31 December 2016, there were 212,738 outstanding loans intended for home purchases.
- **Loans:** financing with the applicants' guarantee, generally for less than six years. The time periods vary according to the intended purpose of the loan and interest rates are set according to the rating of transactions and customers, as measured by internal models for scoring (households) or rating (companies), with the floor set as the Issuer's target RAROC.
- **Lines of credit:** financial transactions that enable companies to have credit liquidity or use the business' liquid assets as operating accounts, paying interest on the basis of the principal drawn down. The various lines of credit are adapted to the characteristics of the Issuer's activity and its economic cycles, and the prices are adapted to the customer's profile and solvency and the Group's target RAROC.

The number of outstanding loan and credit transactions for household and families was 615,299 at 31 December 2016, while there were 57,987 transactions involving non-financial companies.

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<sup>4</sup> *Source:* number of transactions: Statement K302 of CECA at 31 December 2016, drafted with the codes of the A.2 annual supplementary information report of the Bank of Spain.

- **Other specialised products for companies:** the Group's product offering also includes products such as leasing (financing of investments), renting (vehicle acquisition) and others oriented towards mobilisation of working capital, such as factoring, confirming or commercial discount. The offering is adjusted to the companies' size and solvency, estimated using specific rating models for each segment. At 31 December 2016, there were 41,940 bills of exchange receivable in the portfolio, and in 2016 the Group handled approximately €437 million in funds involving factoring and confirming (data published by the *Asociación Española de Factoring* (AEF), of which the Issuer has been a member since March 2010).

#### *Liability products*

Funds that customers deposit with the Issuer and which are recorded as liabilities on the balance sheet. At 31 December 2016, the volume of this product category contracted by customers amounted to €24,205 million.

Customers are able to make deposits through the following products:

- **Current accounts:** deposits that can be made in euros or other currencies that offer total availability and liquidity of deposits to customers. Out of these deposits, periodic collections and payments are made, payments by direct debit are effected, transfers are carried out and cheques are issued, etc. The number of current accounts at 31 December 2016 was 276,391.
- **Savings accounts:** deposits with the same characteristics as current accounts, but with a physical book in which the transactions are recorded. At 31 December 2016, the number of savings accounts was 1,392,902.
- **Term deposits:** deposits, in euros or other currencies, for an agreed time period, offering returns in cash, determined on the basis of the deposit amount and time period of the deposit. Different forms of remuneration are available, such as rising, prepaid interest, payment on maturity or structured (deposits referenced to variables such as a stock exchange, commodities or securities). The number of term deposit contracts was 678,481 at 31 December 2016.

#### *Distribution of third party products*

The Group markets a series of third-party products through various distribution channels. These products are distributed either by the Group or by third parties, and are not recorded on the balance sheet.

These products are marketed through the Group's own distribution channels of banking products, mainly through the branch network. The Group's customer base allows it to diversify its business by marketing supplementary services.

- **Mutual funds**

Amongst the measures included in the Restructuring Plan, the Issuer formed a strategic partnership with Banco Madrid, which was a part of the Banca Privada d'Andorra (BPA) Group for the development of the investment fund business through the Group's commercial network.

In March 2013, the Issuer sold 100% of the share capital of the Group's fund management entity, Liberbank Gestión S.G.I.I.C., S.A., to Banco Madrid for €26 million, following receipt of the necessary authorisations. The Issuer also signed a contract for the distribution of products and services with Banco Madrid, in which it undertook to exclusively distribute its Spanish mutual fund products in the commercial network of the Issuer and Banco de Castilla-La Mancha, S.A.

Following the insolvency of Banco Madrid, the Executive Committee of the CNMV resolved to initiate a procedure to revoke the authorisation of Banco de Madrid, S.A.U. to operate as a fund depositary and to revoke the authorisation of Banco Madrid Gestión de Activos, S.G.I.I.C., S.A. to operate as an asset manager. Following a transitional period in which CNMV designated Renta 4 Gestora, S.G.I.I.C., S.A. as the provisional manager of the funds formerly managed by Banco Madrid Gestión de Activos, S.G.I.I.C., S.A., the substitution of Renta 4 by Liberbank Gestión, S.G.I.I.C., S.A. was approved on 11 December 2015. The substitution occurred following early termination of the distribution contract in force between the Issuer and Banco Madrid Gestión de Activos, S.G.I.I.C., S.A. in December 2015. Nevertheless, the substitution did not become effective until March 2016, when Liberbank Gestión, S.G.I.I.C. regained management of the funds transferred to Banco Madrid, with a volume of €1,699 million.

The Issuer also markets mutual funds managed by other companies, principally mutual funds of various international managers. The Issuer also maintains in its portfolio the mutual funds of Ahorro Corporación Gestión S.G.I.I.C., S.A. that it had marketed in the past.

These alternatives make it possible to configure an offering of funds with a wide range of investment policies, with the capacity to adapt to the needs of each customer.

Investment products are distributed principally through the network of branches, which is supplemented by the online banking channel, which allows for consultation of documents as well as contracting and the most common transactions.

- Insurance

The Group also operates in the insurance business, distributing life insurance and non-life insurance products, generating a gross margin at 31 December 2016 (which is the sum of fees received and the pre-tax income of the life insurance companies) of €37.35 million.

The Group has ownership interests in a number of insurers in life insurance and is in partnership with leading members of the insurance sector who contribute their experience, know-how and solvency to joint ventures for the development of the life insurance and pension business. Specifically, these insurers and the partners are:

- CCM Vida y Pensiones de Seguros y Reaseguros, S.A., 50% of whose capital has been held by BCLM (a company of the Group) and 50% by Mapfre, S.A. since March 2007. This agreement generated in 2012 an additional payment – contingent until 2020 - in favour of the Issuer due to the strong performance of the business, in line with the business plan set for the joint venture; and
- Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A., 50% of whose capital has been held by the Issuer and 50% by Aegon since 30 September 2012.

Effective from 31 December 2014, a merger by takeover occurred between Cantabria Vida y Pensiones, S.A. de Seguros y Reaseguros and Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A., while maintaining the same ownership interest (50% held by the Issuer and 50% held by Aegon), while achieving a simpler and more efficient structure in its functioning.

In the general insurance business, in January 2013, within the framework of the measures included in the Restructuring Plan of the Issuer, the Issuer reached an agreement with Caser for the exclusive distribution in the Group's branch network, on an open-ended basis, of virtually all branches of general insurance. As part of the consideration in exchange for fulfilment of the business plan agreed by the parties, an additional price of €12 million was set, the accrual of which occurred and was recorded as "Received fees" in the consolidated income statement of the Group. The agreement also establishes an additional price of €10 million, subject to fulfilment of certain business objectives agreed by the parties.

These agreements contain exclusive marketing commitments relating to the existing network of each brand at the agreement date, where integration of the business in the Issuer has not entailed termination due to breach or loss of force. Accordingly, the BCLM network markets life insurance and pension products of the joint company with Mapfre, while the rest of the network of the Group markets life and pension products of the joint company with Aegon.

- Pension plans

Marketing of pension plans is supported by different managers pursuant to bancassurance agreements previously entered into by the Original Entities.

Liberbank Pensiones, S.G.F.P., S.A. is a pension fund management company that is wholly owned by the Group. Its core activity is the management of collective funds.

As a result of a bancassurance agreement signed by the Issuer and Aegon in 2013, Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A. took over from Liberbank Pensiones, S.G.F.P. the management of individual pension plans. Its products are distributed through the original Cajastur and Caja de Extremadura networks. The latter also had a portfolio of products managed by CNP Vida, S.A. de Seguros y Reaseguros, although CNP Vida, S.A. was replaced by Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A. in November 2014.

The pension plans of Cantabria Vida y Pensiones and S.A. de Seguros y Reaseguros, in which both the Issuer and Aegon each hold 50%, were distributed through the original Caja Cantabria network. As noted above, effective from 31 December 2014, a merger by absorption was carried out of Cantabria Vida y Pensiones, S.A. de Seguros y Reaseguros by Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A.

BCLM has the products managed by CCM Vida y Pensiones de Seguros y Reaseguros, S.A., in which BCLM and Mapfre, S.A. each hold 50%.

The Issuer acted as depository of all the plans marketed by the predecessor companies until March 2014, when they were effectively transferred to Cecabank S.A. as depository of the funds of the individual system managed by Liberbank Vida y Pensiones as well as by Cantabria Vida y Pensiones, which were subsequently merged.

The Issuer also acts as marketer and depository with respect to various funds managed by Caser and by other third party managers. These are mainly collective funds (employment-related or similar).

### *Services*

- Cards: prepaid, debit and credit cards. At 31 December 2016, the number of cards outstanding amounted to 1,385,600, of which 111,421 were prepaid, 803,173 were debit and 471,006 were credit. Purchases in businesses with these cards amounted to €2.022 million in 2016.
- Point-of-sale (“POS”) terminals: fixed and wireless with telephone or ADSL connection, GPRS terminals (which make it possible to conduct transactions anywhere there is mobile phone coverage), virtual POS terminals for businesses that sell their products or services over the internet, and mobile POS terminals (where a smartphone or tablet can be used as a point of sale terminal). At 31 December 2016, the Issuer had 23,395 terminals, with sales amounting to €838 million in 2016.
- Payrolls/pensions/unemployment benefits: The Group’s payroll service had 744,691 customers at 31 December 2016, as the base of individual customers with the highest level of linkage. Customers with salaries paid by direct debit currently enjoy certain advantages, including discounted commissions and access to products such as mortgages, consumer loans and cash advances under preferred conditions.
- Transferable securities: consisting mainly in the buying and selling of securities by customers in both national and international markets.

### *Distribution channels*

Commercial banking activity is carried on through various distribution channels: the branch network, online banking (web and app), telephone banking and the network of ATMs.

#### *Branch network*

At 31 December 2016, the Group had a network of 896 branches in Spain, distributed throughout the country, with significant presence in the Home Regions. The full-service bank branches are grouped into 42 zones and these, in turn, are grouped into 6 territories (Asturias, Cantabria, Extremadura, East Castilla-La Mancha, West Castilla-La Mancha and Expansion Territories).

Among the measures included in the Restructuring Plan of the Issuer, the Issuer was required to reduce the number of branches forming part of its network from 1,160 to 1,072 centres before the end of 2013. Such commitment was met.

The intermediate organisational structure of the Group network is created in attention to the principles of commercial relevance and efficiency. Regarding the first of these, the figure of “Zone Director” is a key element, as the driving force behind the work of the branches.

The management of the financial business through the network of offices and branches of the Group within the Home Regions has the following specific functions:

- a) to boost the value of the local franchise in the Home Regions;
- b) to leverage the institutional strength and proximity to customers in the Home Regions to increase the competitiveness and efficiency of the Group; and



- c) to promote the integration, motivation and efficient management of the resources contributed to the Issuer within each Home Region.

The geographical distribution of the Group's network of branches is divided into two clearly differentiated areas: (i) that made up by the Home Regions of Cajastur, Caja de Extremadura, Caja Cantabria and BCLM and (ii) the rest of the national territory where the Group has a presence (the "**Expansion Territories**").

The Home Regions of the Group are the autonomous regions of the Principality of Asturias, Extremadura, Cantabria and Castilla-La Mancha. Outside of these, in the Expansion Territories, the Issuer is present, at a national level, in the autonomous regions of Andalusia, Aragon, Castilla y León, Catalonia, Valencia, Galicia, Madrid, Murcia and Basque Country.

For the year ended 31 December 2016, the activity of the Group was carried out through 896 branches located in Spain, with a network model made up by full-service branches complemented by specialised private banking and company banking units. The Group also has two international representation offices, in Mexico and the Dominican Republic.

During 2015, a process of brand changing was started at the Group branches. The result of such process will be the progressive disappearance of the four brands of origin and the promotion of two brands: Liberbank and Liberbank Banco de Castilla la Mancha.

#### *Branch networks by brand*

Following is a breakdown of the details of the branch networks by brand at 31 December 2016:

| NUMBER OF BRANCHES              | Home Regions |             |            |                    | Expansion     | TOTAL      |
|---------------------------------|--------------|-------------|------------|--------------------|---------------|------------|
|                                 | Asturias     | Extremadura | Cantabria  | Castilla-La Mancha | Rest of Spain |            |
| Liberbank <sup>(1)</sup> .....  | 146          | 181         | 105        | 13                 | 89            | <b>534</b> |
| BCLM.....                       | 0            | 0           | 0          | 332                | 96            | <b>428</b> |
| <b>Total.....</b>               | <b>146</b>   | <b>181</b>  | <b>105</b> | <b>345</b>         | <b>185</b>    | <b>962</b> |
| Branches shared among the Group | 1            | 0           | 3          | 8                  | 54            | <b>66</b>  |
| <b>TOTAL BRANCHES.....</b>      | <b>145</b>   | <b>181</b>  | <b>102</b> | <b>337</b>         | <b>131</b>    | <b>896</b> |

(1) Including the brands corresponding to the Original Entities (Cajastur, Caja de Extremadura and Caja Cantabria), which are under a process of unification.

#### *Online banking*

The Group currently has an online banking platform that is accessible from any device with an internet connection available on the market. Some 37.13% of its active customers had contracted online banking services at 31 December 2016.

The Group has applications that are specially developed for the latest models of smartphones and tablets available on the market, allowing customers to interact with the Issuer using the latest technology.

The online banking service of the Group is in constant evolution, with the purpose of covering the needs of the customer and servicing the customer segments that, either by necessity, or due to the changes in social communication habits, require a bank that is available 24 hours a day, 365 days a year, and who no longer consider the branch as their preferred channel.

The online banking of the Group, in addition to contributing to cost reduction by reducing transactional activity at branches, is a new means of generating income by allowing the possibility of offering a personalised product/service to each customer. The knowledge of the customer developed based on advanced statistical techniques and the CRM (customer relations management software) as coordinator of the multi-channel commercial activity, are keys in this process.

#### *Telephone banking*

The Issuer has an automated telephone banking service that allows customers to perform the same transactions as with online banking 24 hours a day, 365 days a year.



### *Network of automatic teller machines*

At 31 December 2016, the Group offered its customers a network of 1,308 ATMs integrated into the *Euro 6000* network.

The network of ATMs offers customers functions that go beyond the traditional transactions conducted on such devices (statements, balances, withdrawals and transfers). These functions include the issuance of show tickets, the contracting of pre-approved loans, the payment of taxes and fees, telephone top-ups, payment of bills, transfers, “buddy payments” receiving cash with a simple OTP (*one-time password*) or the deposit of cash.

### ***Commercial Banking and Corporate Banking Strategy***

The Commercial Banking and Corporate Banking strategy of the Issuer is structured based on three pillars:

#### *Household Segment*

This segment is the most representative of the activity of the Issuer, accounting for approximately 86.0% of the customer deposits and almost 62.0% of the loans at 31 December 2016.

The Issuer intends to base its performance on its leadership in the Home Regions, the high recognition of its local brands and its proximity to customers to:

- control funding costs, both by the high proportion of sight deposits with relatively low costs and by the maintenance of rational pricing policies with respect to term deposits;
- increase lending activity, as macroeconomic conditions recover, and be active in offering consumer financing to families; and
- improve cross-selling of para-financial products (insurance and investment funds) applying the best internal practices of the Group in order to advise its customers in these products, while benefiting from the expertise brought by its recognised partners in these products.

#### *Corporate Segment*

This segment and, more specifically, that of SMEs, in the opinion of the Issuer, present an opportunity for growth in the Home Regions, complementary to the principal activity with the Group’s Households Segment.

At companies and, especially SMEs, the purpose of the Issuer is to drive its current loan market share to levels nearer to the general credit market share of the Issuer. For this purpose, the Issuer intends to rely on its substantial knowledge of the segment customers. The Issuer has strengthened the commercialisation channels for these segments, both medium-size enterprises (channel of branches specialising in Enterprise Banking) and small enterprises (491 commercial SME staff in 400 full-service branches specialising in companies, at 31 December 2016).

Additionally, processes, tools and policies have been adopted to acquire better knowledge and thereby offer better services to the Issuer’s customers.

#### *Evolution of distribution channels*

Since the creation of the Issuer in 2011, it has performed a continuous exercise in improving the efficiency of its network by closing inefficient branches and adjusting staffing levels at branches, and reorganising the network structure, with the creation of Commercial Management Units (management units consisting of several nearby branches) which have allowed for the rationalisation of management staffing levels.

During 2017, the Issuer intends to continue to evolve with the transformation of the face-to-face channel model, consisting of adjusting the branch model to the needs of the business, adjusting them in size and efficiency, and a greater specialisation of the commercial figures and incorporating new self-service and multi-channel elements.

It is also planned to continue to drive distance channels by fostering the use of electronic mediums by customers, and the continuous development of self-service and commercialisation functions among these channels.

#### **BUSINESS AFFILIATES MANAGEMENT AREA**

The Issuer provides a comprehensive management of the portfolio of investments in dependant companies and jointly controlled entities, as well as a portfolio of investments in associates and other equity investments classified in accounting as “available-for-sale” in the capital instruments portfolio that, based on the investment and/or interest level, are actively managed.

Along these lines, the objective of the management strategy is to maximise economic value for the Issuer through the close oversight of the evolution and of the business expectations of the companies, especially those in which there is a presence on their governance bodies.

The business of all interests of the Group is overseen, segmented by activity, relevance and investment level.

The Issuer combines the various models existing at the Original Entities, commingling direct investments owned by the Issuer and BCLM with indirect interests through specific vehicles for interests in companies and for unlisted companies (mainly grouped into Oppidum Capital, S.L., Liberbank Capital, S.A.U. or, at a larger scale, into Corporación Empresarial Caja Extremadura, S.L.).

The managed portfolio may be classified according to the following sectors:

- **Financial Services:** the Group shares with other financial entities a historical presence in a series of companies contributing services of various financial types for its customers, noteworthy among which are interests in Cecabank, S.A., Caser S.A., Lico Corporación, S.A. and Ahorro Corporación, S.A., among others. It further maintains partnerships with first-tier insurance companies through Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A. and CCM Vida y Pensiones de Seguros y Reaseguros, S.A. (all at 50%). It also owns 100% of the capital of investment funds manager Liberbank Gestión, S.G.I.I.C., S.A.U.
- **Real Estate:** the Group has not had a frequent practice of direct investment and development of projects in the real estate area. The Issuer nonetheless has companies (wholly owned) whereby it manages real estate derived from agreements with borrowers and foreclosed real estate, noteworthy among which are Beyos y Ponga, S.A. for the assets derived from the Issuer, and Mosacata, S.L. and Retamar Soluciones Inmobiliarias, S.A., in those derived from BCLM.
- **Energy, Industry and Infrastructures:** The Group is indirectly present in EDP through Oppidum Capital, S.L., a minority interest in the concessionaire Itinere Infraestructuras, S.A., an interest in the water management company Aquanex, Servicio Domiciliario del Agua de Extremadura, S.A. (45% capital) and manages the Alfonso XIII de Santander (Laoconte Operaciones, S.L.U.) and the Conquistadores de Badajoz (Análisis y Gestión de Innovación Tecnológica, S.L.U.).
- **Hotels:** the Group is the owner of 100% of five hotels, two in Merida (Merida Palace Hotel, a 5 star hotel, and Hotel Las Lomas, a four star hotel), two in Layos, Toledo (Layos Golf Hotel, a 4 star hotel and Alba de Layos Hotel, a 5 star hotel) and one in Plasencia (Alfonso VIII Hotel, a 4 star hotel). It also has a share (38.9%) in Hostelería Asturiana S.A., owner of the Reconquista de Oviedo (a 5 star hotel).
- **Media and services:** Mihabitans, S.A.U., Factoría de Transformación de Operaciones y Servicios S, L.U. or Liberbank IT, S.L.U., among others.

The strategy of the Issuer with respect to its interests in companies is currently in line with the objectives of the Group, based on seeking to maximise its portfolio value and that of the real estate assets through their proactive management, monitoring, analysis, valuation, control and administration, all this accompanied by the performance of an orderly process of divestiture from companies where opportunities had been identified to maximise the profitability of the investments made, improve the liquidity position and/or good standing of the Group, or streamline its company structure. This strategy is in line with the divestiture commitments assumed by the Issuer in the Restructuring Plan.

## Administrative, Management and Supervisory Bodies

### Composition of the Board of the Issuer

The following table sets forth, as of the date of this Prospectus, the names of the members of the board of directors, their position within the Board and their membership type:

| Name/Registered Name                              | Position             | Type of Director       |
|---|----------------------|------------------------|
| Mr. Pedro Manuel Rivero Torre .....               | Chairman             | Independent            |
| Mr. Manuel Menéndez Menéndez <sup>(1)</sup> ..... | Managing Director    | Executive              |
| Mr. Víctor Manuel Bravo Cañadas .....             | First Vice Chairman  | Proprietary            |
| Mr. Eduardo Zúñiga Pérez del Molino .....         | Second Vice Chairman | Proprietary            |
| Mr. Jesús María Alcalde Barrio .....              | Director-Secretary   | Proprietary            |
| Mr. Jorge Delclaux Bravo .....                    | Director             | Independent            |
| Ms. Davida Sara Marston .....                     | Director             | Independent            |
| Ms. María Encarnación Paredes Rodríguez .....     | Director             | Proprietary            |
| Mr. Felipe Fernández Fernández .....              | Director             | Proprietary            |
| Mr. Víctor Roza Fresno .....                      | Director             | Other external members |
| Mr. Alfonso Pitarch Rodríguez .....               | Director             | Proprietary            |
| Ms. María Luisa Garaña Corces .....               | Director             | Independent            |
| Mr. Ernesto Luis Tinajero Flores .....            | Director             | Proprietary            |
| Mr. Luis Masaveu Herrero .....                    | Director             | Proprietary            |

(1) Holds a Senior Management position at Liberbank.

Mr. Jesús María Alcalde Barrio acts as Secretary of the board of directors.

The professional address of all members of the board of directors is, for these purposes, Camino de la Fuente de la Mora 5, 28050 Madrid.

The table below shows the Directors of the Issuer that are members of the administrative, management or supervision bodies, or that are direct partners of other companies or associations excluding: (i) those companies of a merely patrimonial or family nature, which have no relevance to the Issuer; (ii) shareholdings in listed companies, which are not material; (iii) companies and entities of the Group; and (iv) any others that have no relevance whatsoever for purposes of the activity of the Group as of the date of this Prospectus.

#### Directors and Senior Management

| Name                                      | Company   | Office                     |
|---|---|----------------------------|
| Mr. Pedro Manuel Rivero Torre .....       | Asociación Española de Contabilidad y Administración de Empresas (AECA) | Second Vice Chairman       |
| Mr. Manuel Menéndez Menéndez .....        | Confederación Española de Cajas de Ahorros (CECA)                       | Board Member               |
|   | Hidroeléctrica del Cantábrico, S.A. (HC)                                | Non-executive President    |
|   | EDP Renováveis, S.A. (EDPR), investee company of HC                     | Board Member               |
|   | Asociación Española de la Industria Eléctrica–Unesa                     | Board Member               |
|   | Fundación EDP España  | Chairman of the Board      |
|   | FUNCAS  | Board Member               |
|   | Fundación DIPC  | Board Member               |
|   | Fundación Princesa de Asturias  | Board Member               |
| Mr. Víctor Manuel Bravo Cañadas .....     | Caja de Seguros Reunidos Compañía de Seguros y Reaseguros, S.A.(CASER)  | Vice Chairman of the Board |
| Mr. Eduardo Zúñiga Pérez del Molino ..... | Ediciones Finder, S.L   | Chairman                   |

## Directors and Senior Management

| Name                                 | Company  | Office                               |
|--------------------------------------|--|--------------------------------------|
| Mr. Jesús María Alcalde Barrio ..... | Oppidum Capital, S.L   | Non-director Secretary               |
| Mr. Jorge Delclaux Bravo.....        | Findel, S.L.   | Joint Administrator                  |
|                                      | Promotora residencial Liendo, S.L.                             | Joint Administrator                  |
|                                      | Zángano Charter, S.L.  | Joint Administrator                  |
|                                      | Amadel Capital, S.L  | Joint Administrator                  |
|                                      | Península Capital, SARL  | Director                             |
|                                      | Península Promoters, SARL                                      | Director                             |
| Ms. Davida Sara Marston .....        | Bank of Ireland  | Director                             |
| Mr. Felipe Fernández Fernández.....  | Ahorro Corporación, S.A.                                       | Board Member                         |
|                                      | Lico Corporación, S.A  | Chairman of the Board                |
|                                      | Hidroeléctrica del Cantábrico, S.A.(HC)                        | Board Member                         |
|                                      | Cementos Tudela Veguín, S.A.                                   | Board Member                         |
|                                      | Masaveu Inmobiliaria, S.A.                                     | Board Member                         |
|                                      | Cimento Verde do Brasil, S.A                                   | Board Member                         |
|                                      | Instituto de Medicina Oncológica y Molecular de Asturias, S.A. | Board Member                         |
|                                      | Fundación Caser para la Dependencia                            | Board Member                         |
|                                      | EDP Energías de Portugal, S.A.                                 | Director General Oversight Committee |
|                                      | Fundación Princesa de Asturias                                 | Board Member                         |
| Mr. Víctor Roza Fresno .....         | Cementos Tudela Veguín, S.A.                                   | Board Member                         |
|                                      | Medicina Asturiana, S.A.                                       | Board Member                         |
|                                      | Masaveu Brasil Ltda.   | Board Member                         |
|                                      | Masaveu Investments LTDA                                       | Board Member                         |
|                                      | Masaveu Internacional, S.L                                     | Joint Administrator                  |
|                                      | Masaveu Bodegas, S.L   | Board Member                         |
|                                      | Masaveu Inmobiliaria, S.A.                                     | Board Member                         |
| Mr. Alfonso Pitarch Rodríguez.....   | Eléctrica del Oeste, S.L.                                      | Secretary and Board Member           |
|                                      | Eléctricas Pitarch, S.L.                                       | Chief Executive Officer              |
|                                      | Eléctricas Pitarch Distribución, S.L.U.                        | Sole Administrator                   |
|                                      | Iniciativas Guindulain, S.L.                                   | Joint Administrator                  |
|                                      | Minicentrales Extremeñas, S.A.                                 | Joint Administrator                  |
|                                      | Energiza Sistemas Energéticos, S.L.                            | Sole Administrator                   |
| Ms. María Luisa Garaña Corces.....   | Alantra Partners, S.A. (formerly called Nmas1 Dinamia, S.A.)   | Director                             |
|                                      | Euler-Hermes   | Director                             |
|                                      | Distribuidora Internacional de Alimentación, S.A. (DIA)        | Director                             |
|                                      | European Institute of Innovation and Technology                | Member of the Governing Board        |
|                                      | Social Council of UNED   | Member                               |
|                                      | APD Council (Association for the Progress of Direction)        | Member                               |
|                                      | Junior Achievement Foundation                                  | Board Member                         |
|                                      | Seres Foundation in Spain.                                     | Board Member                         |

## Directors and Senior Management

| Name                                   | Company                             | Office   |
|--|-------------------------------------|--|
| Mr. Ernesto Luis Tinajero Flores ..... | Leasa Spain, S.L.                   | Chairman and Managing Director                 |
|  | Aivilo Spain, S.L.                  | Chairman and Managing Director                 |
|  | Inmosan, S.A. de CV                 | Chairman and Managing Director                 |
|  | Impulsora del Deportivo Necaxa      | Chairman                                       |
|  | Colegio Junípero, AC                | Member of Board and of the Financial Committee |
|  | Compañía de Viñedos Iberian, S.L.   | Director                                       |
|  | Viñas del Jaro, S.L.U.              | Director                                       |
|  | Bodegas y Viñedos de Cal Grau, S.L. | Director                                       |
| Mr. Luis Masaveu Herrero .....         | Corporación Masaveu, S.A.           | Board Member                                   |
|  | Aalto Bodegas y Viñedos, S.A        | Board Member                                   |
|  | Masaveu Inmobiliaria, S.A.          | Board Member                                   |
|  | Prascorp, S.L.                      | Joint Administrator                            |
|  | Karlica Investments, S.L.           | Joint Administrator                            |
|  | Masaveu Capital S.L.                | Sole Administrator                             |
|  | Masbibio Invest, S.L.               | Sole Administrator                             |
|  | Apartamentos el Bibio, S.L.         | Sole Administrator                             |
|  | Verazone, S.L.                      | Sole Administrator                             |

According to the information furnished to the Issuer, none of the persons shown in the preceding table have any conflicts of interest between their duties with the Issuer and their private interests, nor do they perform any activities on their own or for others that are similar, analogous or complementary to those of the corporate purpose of the Issuer, other than those indicated in the above table.

## Corporate Governance

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

| Office   | Audit Committee                     | Appointment Committee            | Remuneration Committee                  | Board Risks Committee                                     |
|----------|-------------------------------------|----------------------------------|---|---|
| Chairman | --                                  | Ms. Davida Sara Marston          | Ms. María Garaña Corces                 | Mr. Jorge Delclaux Bravo                                  |
| Director | Mr. Pedro Manuel Rivero Torre       | Mr. Pedro Manuel Rivero Torre    | Ms. Davida Sara Marston                 | Ms. María Garaña Corces<br>Mr. Felipe Fernández Fernández |
| Director | Mr. Jorge Delclaux Bravo            | Mr. Víctor Roza Fresno           | Mr. Víctor Roza Fresno                  |   |
| Director | Mr. Eduardo Zúñiga Pérez del Molino | Mr. Ernesto Luis Tinajero Flores | Ms. María Encarnación Paredes Rodríguez | Mr. Luis Masaveu Herrero                                  |
| Director | Mr. Alfonso Pitarch Rodríguez       | --                               | --                                      | --  |

## Audit Committee

According to the bylaws and internal regulations of the Issuer, 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 accounts of the Issuer, the compliance with legal requirements thereto, the implementation of the generally agreed accounting principles, and to inform about any proposal of changing such accounting principles and criteria; (iii) inform the board of directors in advance of any related-party transactions in accordance with the Regulation of the board of directors; (iv) submit proposals for the appointment, re-appointment, replacement and, if applicable, revocation or non-renewal, of the external auditor together with its contract conditions and the

scope of its professional engagement; and (v) supervise the effectiveness of the internal control, the internal audit services, and the risk management systems.

#### ***Appointments Committee***

The bylaws and internal regulations of the Issuer provide that the Appointments 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) prepare and review the criteria to be followed for the composition of the board of directors and the selection of candidates, identifying and recommending candidates for vacant positions; (ii) raise proposals for the appointment of independent directors to the board of directors; (iii) inform the board of directors of proposals for the appointment of the remaining directors; (iv) propose the members who are to form part of each of the committees; and (v) analyse the structure, size, composition and performance of the board of directors, at least once a year.

#### ***Remuneration Committee***

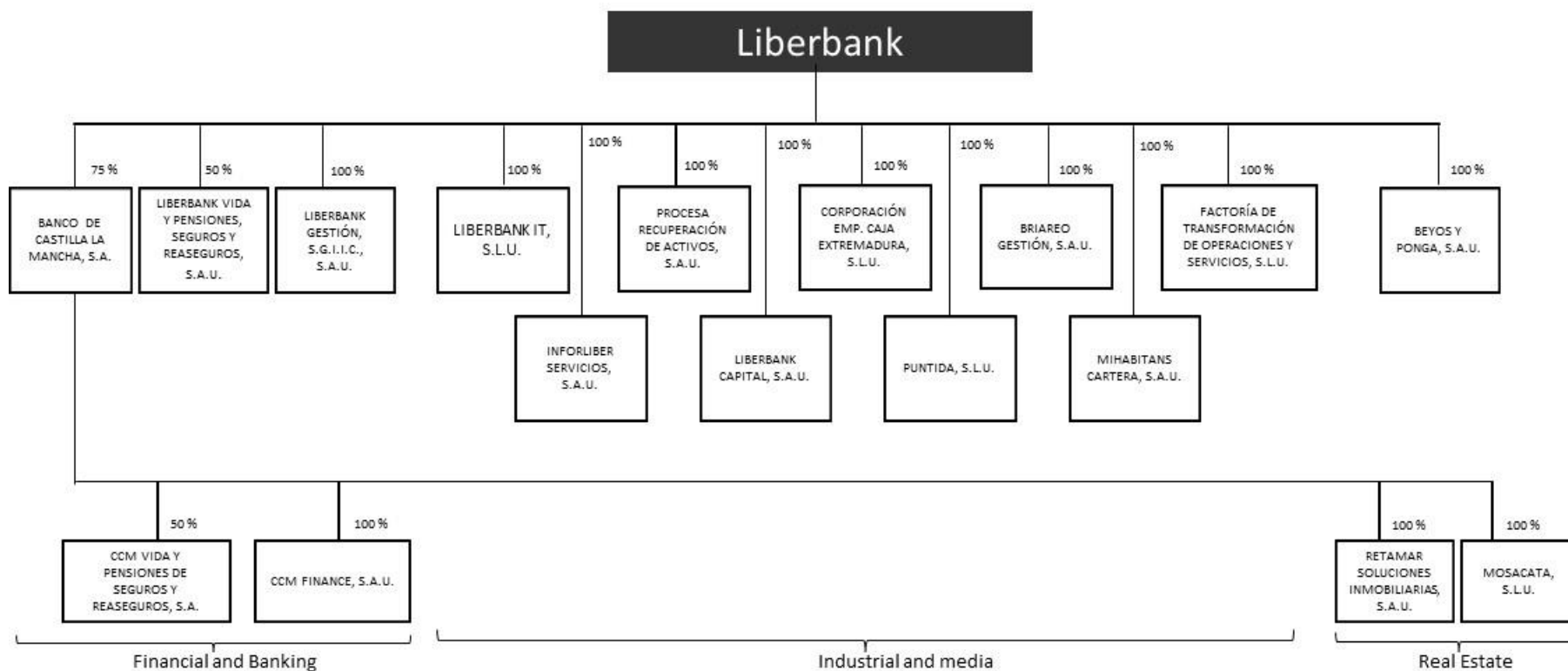
The bylaws and internal regulations of the Issuer provide that the Remunerations Committee has general powers to propose and report to the board of directors about matters regarding compensation of directors. The powers of this Committee are, among others, to: (i) propose to the board of directors the remuneration policy of the directors, the general managers or those who perform management functions answering directly to the board of directors, the executive committees or the chief executive officers; (ii) propose to the board of directors the individual remuneration and other contract conditions of the executive directors, ensuring compliance therewith; (iii) annually issue a report on the directors' remuneration policy; and (iv) ensure transparency of compensation and compliance with the directors' remuneration policy.

#### ***Board Risks Committee***

According to the bylaws and internal regulations of the Issuer, the powers of the Board Risks Committee are, among others, to (i) advise the board of directors on the current and future global risks to Liberbank, its strategy to address these risks, to assist the Board in overseeing the application of this strategy, 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 the prices of the assets and liabilities offered to customers take fully into account the business model and risk strategy of Liberbank; (iii) analyse and evaluate the proposals on the strategy of control and risk management of the Group; and (iv) monitor the performance of the Group's risks and their fit with the strategies and policies defined and the Group's risk appetite.

#### **Organisational Structure**

The Issuer is the parent company of a consolidated group of credit institutions comprising various companies as dependent, associated and multi-group entities, pursuant to Circular 4/2004, as amended. Following is an organisation chart with the main subsidiaries and jointly-controlled companies of the Issuer at the date of this Prospectus.



## Capital Structure

At the date of this Prospectus, the share capital of the Issuer amounts to €818,358,141.60, represented by 909,286,824 shares, with a par value of €0.90 each, all of the same class and series, fully subscribed to and paid in. The shares of the Issuer are listed on the stock exchanges of Madrid, Bilbao, Barcelona and Valencia.

### *Number of authorised shares*

The general shareholders' meeting of the Issuer held in April 2015 approved the delegation to the board of directors of the authority to increase share capital, within a maximum term of 5 years, by up to one half of the amount of the share capital, on one or more occasions, and at such time and amount as deemed appropriate, conveying the authority to exclude the right of preferred subscription under Article 297.1.b) of the LSC.

Under the framework of the Restructuring Plan prepared by the Issuer, the general shareholders' meeting held in January 2013 approved the increase in share capital of the Issuer in a necessary amount to cover the petitions for the conversion of the mandatory convertible subordinated bonds (Series A/2013, Series B/2013 and Series C/2013) issued.

### *Mandatory convertible subordinated bonds following the buyback of the hybrid instruments of capital and subordinated debt (Series A/2013, Series B/2013 and Series C/2013).*

Following the mandatory buyback of the hybrid instruments of capital and subordinated debt by the FROB in April 2013, mandatory convertible bonds were issued amounting to a total of €329 million.

All these bonds are securities convertible into shares eligible as Tier 1 for the purposes of the rules of Basel III. They are divided into three series: A/2013, B/2013 and C/2013, their par value is €10, they have been issued at par value and with maturities of five years three months from their date of issuance. Upon maturity and unless redeemed earlier, these bonds shall necessarily be converted into shares. They shall receive, subject to compliance with the terms and conditions of the bonds, the following annual coupon: Series A/2013: 5% of par value; Series B/2013: 5% of par value; and Series C/2013: 7% of par value. The coupon is to be paid annually.

The conversion price shall be the value attributed to the shares of the Issuer to be determined based on the average of the mean weighted changes in the share of the Issuer corresponding to the 15 business days before a conversion situation occurs, subject to the following minimum and maximum limits, adjusted following the capital increases in an effective total amount of €574.85 million and following the grouping and cancellation of shares (reverse-split), determined below based on the Series:

- (i) Series A/2013: Should the average price be less than €9.72, the conversion price shall be €9.72. Additionally, if the average price were greater than €24.78, the conversion price shall be €24.78.
- (ii) Series B/2013: Should the average price be less than €6.39, the conversion price shall be €6.39. Additionally, if the average price were greater than €24.78, the conversion price shall be €24.78.
- (iii) Series C/2013: Should the average price be less than €1.23, the conversion price shall be €1.23. Additionally, if the average price were greater than €17.34, the conversion price shall be €17.34.

In addition to the necessary conversion into shares at the maturity date, the bonds shall necessarily convert into shares in the provided scenarios.

Upon the elapse of five years from the date of issuance and with the prior authorisation of Bank of Spain and only if this were not to affect the financial position and good standing of the Issuer it may, at its entire discretion, buy back all or some of the bonds at par value.

Following the successive conversion periods, at the date of this Prospectus, the number of outstanding mandatory convertible bonds is as follows:

- (i) Series A/2013 bonds, with a total par value of €61,861,520.
- (ii) Series B/2013 bonds, with a total par value of €13,040,640.
- (iii) Series C/2013 bonds, with a total par value of €111,108,410.



The following table shows the significant shareholders of the Issuer at the date of this Prospectus:

| SHAREHOLDER  | No. of direct voting rights | No. of indirect voting rights | % of total voting rights <sup>(6)</sup> |
|--|-----------------------------|-------------------------------|---|
| Fundación Bancaria Caja de Ahorros de Asturias.....                      | 270,103,364                 | 137,243,632 <sup>(5)</sup>    | 44.798                                  |
| Fundación Bancaria Caja de Ahorros y Monte de Piedad de Extremadura..... | 78,651,929 <sup>(4)</sup>   | --                            | 8.650                                   |
| Fundación Bancaria Caja de Ahorros de Santander y Cantabria.....         | 55,623,721 <sup>(4)</sup>   | --                            | 6.117                                   |
| Mr. Ernesto Luis Tinajero Flores <sup>(1)</sup> .....                    | --                          | 68,820,071                    | 7.569                                   |
| Mr. Fernando Masaveu Herrero <sup>(2)</sup> .....                        | --                          | 50,782,051                    | 5.584                                   |
| Oceanwood Capital Management LLP <sup>(3)</sup> .....                    | --                          | 32,355,880                    | 3.558                                   |

(1) Through Aivilo Spain, S.L.

(2) Through Flicka Forestal, S.L. (0.330%), Fundación María Cristina Masaveu Peterson (0.277%) and Corporación Masaveu, S.A. (4.977%).

(3) Through Oceanwood Investments LTD. This indirect interest could reach 10.283% if Oceanwood Opportunities Master Fund were to exercise the rights derived from financial instruments conveying the right to acquire shares (currently representing 6.725% of the aggregate voting rights).

(4) The number of voting rights communicated to the CNMV has been adjusted in the same proportion as the one used in the grouping of shares (reverse split) of a new share for every three old shares carried out by the Issuer on 8 January 2016.

(5) The overall indirect interest of Fundación Bancaria Caja de Ahorros de Asturias includes the overall participation of Fundación Bancaria Caja de Ahorros de Santander y Cantabria and of Fundación Bancaria Caja de Ahorros y Monte de Piedad de Extremadura under the agreement reached between the aforesaid entities.

(6) Calculated according to the outstanding number of shares.

Source: Communications made to the CNMV (website of the CNMV at the date of this Prospectus).

Cajastur, Caja de Extremadura and Caja de Ahorros de Santander y Cantabria, subsequently transformed into banking foundations, gave notice through publication of the respective Significant Event (No. 188915) of the subscription of a vote syndication agreement and limitations on the transferability of the shares. By reason of such syndication agreement, except as regards certain specific issues, voting is cast by the Fundación Bancaria Caja de Ahorros de Asturias.

According to the information available to the Issuer, there is no agreement the application of which could, at a subsequent date, lead to a change in control of the issuer.

## Legal and Other Proceedings

Except for the legal proceedings summarised below, and notwithstanding the information contained of the Risk Factor “*Risk Factor– The nullity of so-called “floor clauses” and their resulting total retroactivity could have a negative impact on the Group*”, neither the Issuer, nor any company of the Group are involved in any government, legal or arbitration proceeding, including any that are pending resolution, that has caused or could cause significant damage to the Group or to its position or financial profitability.

### *Suit brought by the Credit Institutions Deposits Guarantee Fund against Banco BCLM*

In January 2013, BCLM (a company of the Group) received notice of the suit brought by the FGD demanding payment by BCLM of an aggregate amount of approximately €40 million, corresponding to a difference relating to the cost of the APS in 2010 and the payment of interest for delinquency in the payment of the APS for 2011. In February 2013, BCLM filed the relevant response to the suit before the court. In December 2013, the Court of First Instance of Madrid issued a judgement dismissing the suit filed by the FGD in its substantial aspects. The FGD filed an appeal against the referred judgement in June 2015, which was resolved by the Provincial Court of Madrid, revoking the judgement issued at trial in its entirety and ordering BCLM to pay €37.1 million. An appeal for cassation has been filed by BCLM against the referred judgement, which is currently pending. At 31 December 2016, the Issuer recorded a provision in the amount of €20.1 million for this claim.

### *Agreement with unions representing the majority*

In June 2013, the Issuer reached an agreement with the unions representative of the majority of the workers (CCOO and UGT), containing modifications to the labour conditions. Nonetheless, in November 2013, the Labour Chamber of the National Court issued a judgement annulling such agreement and a cassation appeal was brought against such judgement before the Supreme Court. In July 2015, the Supreme Court confirmed the aforementioned judgement. As a consequence of the referred judgement by the Supreme Court, upholding the nullity of the labour agreement of June 2013 and of the measures established in such collective bargaining agreement, the Group has informed the workers that it will restore them to the time prior to the application of the

measures derived from the annulled agreement, at which time the workers were being subjected to the measures communicated in May and June 2013, upon ending the process of modification of conditions without reaching an agreement, the suspension of contracts and the reduction of work shifts that had started in April and ended in May 2013. At 31 December 2016, the Issuer estimated that the cost of such restoring could have a maximum economic impact for the Group of €3.1 million. Along these lines, the Group has established a provision in this amount in the account “Provisions – Other provisions” of the consolidated balance sheet.

In September 2016, a judgment by the Labour Chamber of the National Court resolved on the procedure for challenging the internal flexibility measures unilaterally adopted by Liberbank in May 2013 (referred to in the paragraph above). The decision declared the nullity of such measures and the reinstatement of the workers in the conditions immediately prior to their adoption. The Issuer appealed before the Supreme Court the judgement of the National Court. At 31 December 2016, the Issuer provisioned €10.3 million for this claim.

Additionally, in December 2013, a labour agreement was entered into with the trade unions (CCOO, UGT and CSIF). In January 2014, the Offices Committee of the Issuer in Asturias filed a suit challenging such agreement. In May 2014, a judgement was issued dismissing all the claims, except the matter regarding the contributions to the employees’ pension plans. In July 2014, the Issuer filed an appeal for cassation against such judgement before the Social Chamber of the Supreme Court, which declared in November 2015 the full validity of the temporary redundancy plan (ERTE) agreed in December 2013, including the suspension of the contributions to pension plans. At 31 December 2014, the Group had recorded a provision in the amount of €15.4 million for this item in the account “Provisions – Other provisions” on the consolidated balance sheet, which has been released in 2015 given the full validity of the ERTE following the judgement by the Supreme Court.

#### ***Suit brought by Construcciones León Triviño, S.L. against Banco de Castilla la Mancha***

In October 2014, Construcciones León Triviño, S.L. sued BCLM claiming €21.437 million in damages derived from an alleged breach of a refinancing agreement between the Issuer and the plaintiff. Also in October 2014, the Issuer filed with the court the relevant answer to the complaint. In November 2015, a judgement fully dismissed the complaint, which was appealed by the plaintiff and once again dismissed by the appeal court. In February 2017, the plaintiff further appealed before the Spanish Supreme Court the decision of the appeal court, which is currently pending. At 31 December 2016, the Issuer did not record any provision in connection with this claim.

#### **Credit Rating**

The following table contains the credit ratings that the Issuer has currently assigned for the long and short term by the credit rating agencies Fitch Ratings Spain, S.A.U., Moody’s Investors Service Spain, S.A.U. and DBRS Ratings Limited.

| <b>Credit rating agencies</b>                                | <b>Long term</b>   | <b>Perspective</b> | <b>Short term</b>     | <b>Latest date of review of rating</b> |
|--|--------------------|--------------------|-----------------------|--|
| Fitch Ratings Spain, S.A.U. <sup>(1)</sup> .....             | BB                 | Stable             | B                     | 05/05/2016                             |
| Moody’s Investors Service Spain, S.A.U. <sup>(1)</sup> ..... | B1                 | Stable             | NP                    | 06/10/2016                             |
| DBRS Ratings Limited. <sup>(1)</sup> .....                   | BBB ( <i>low</i> ) | Stable             | R-2 ( <i>middle</i> ) | 20/06/2016                             |

(1) Rating agency registered on ESMA pursuant to Regulations (CE) No. 1060/2009 of the European Parliament and of the Council, of 16 September 2009, regarding credit rating agencies and subsequent modifications.

## Overview Financial Information

|  | 31/12/2016                | 31/12/2015  |
|--|---------------------------|-------------|
| MAIN RATIOS AND FINANCIAL FIGURES <sup>(1)</sup>               | Unaudited                 | Unaudited   |
| <b>SOLVENCY<sup>(2)</sup></b>                                  |                           |             |
| CET 1 Ratio (%) <sup>(3)</sup> .....                           | 12.14                     | 13.67       |
| Tier 1 phased-in capital ratio (%) <sup>(3)</sup> .....        | 12.29                     | 13.96       |
| Total capital phased-in ratio (%) <sup>(3)</sup> .....         | 12.29                     | 13.96       |
| Leverage ratio <sup>(3)</sup> .....                            | 6.0                       | 5.4         |
| <b>PROFITABILITY AND EFFICIENCY</b>                            |                           |             |
| Final total assets (thousands of €) .....                      | 38,324,438 <sup>(4)</sup> | 42,136,014  |
| Average total assets (thousands of €) .....                    | 41,560,981                | 42,531,894  |
| Average shareholders' equity (thousands of €) .....            | 2,635,691                 | 2,246,054   |
| Final equity (thousands of €) .....                            | 2,552,220 <sup>(4)</sup>  | 2,632,156   |
| ROA (%) (over the average total assets) .....                  | 0.3                       | 0.3         |
| ROE (%) (over the average shareholders' equity) .....          | 4.9                       | 5.7         |
| Efficiency ratio (%) .....                                     | 41.7                      | 43.4        |
| Net interest income over the average total assets (%) .....    | 1.1                       | 1.2         |
| <b>RISK MANAGEMENT</b>   |                           |             |
| Total risks (thousands of €) .....                             | 23,602,055                | 25,028,410  |
| Loans and advances to customers (gross) (thousands of €) ..... | 23,005,608                | 24,421,298  |
| NPL (loans and advances to customers) (thousands of €) .....   | 3,205,337                 | 4,918,831   |
| Customer credit loss allowances (thousands of €) .....         | (1,275,477)               | (1,990,804) |
| NPL ratio (%) .....  | 13.9                      | 20.1        |
| NPL coverage ratio (%) .....                                   | 39.8                      | 48.4        |

(1) The APS expired on 31 December 2016, and consequently the APS Assets ceased to be protected (see "History and Development").

(2) As a result of the SREP carried out by the ECB in 2016, Liberbank was notified of the minimum capital prudential requirements for 2017. As of 1 January 2017, Liberbank is required to maintain a CET1 phased-in ratio of 8.25% and a total capital phased-in ratio of 11.75% of its consolidated basis that include: (i) the Pillar 1 regulatory minimum of 4.50% in CET1 and 8% in total capital; (ii) the Pillar 2 requirement (2.5%); and (iii) the capital "buffers" applicable to 2017 (in the case of the Issuer, the 1.25% capital conservation "buffer" only).

(3) Calculated according to CRR.

(4) Audited.

Following are the balance sheets and income statements, all consolidated, corresponding to the years 2016 and 2015, prepared in accordance with the IFRS-EU.

The balance sheet and the income statement of the Group for the year 2016 set out in the tables below are prepared in accordance with the presentation models required by Circular 5/2015 of the CNMV. To make the 2016 consolidated financial information comparable with the consolidated financial information for the year 2015, the 2015 financial information is also presented in accordance with such models contained in Circular 5/2015 of the CNMV. Therefore, the balance sheet and the income statement of the Group for the year 2015 set out below do not constitute the audited consolidated balance sheet and income statement of the Group for the year 2015.

## Consolidated balance sheets of the Group at 31 December 2016 and 2015

|   | 31/12/2016        |              | 31/12/2015               |
|---|-------------------|--------------|--------------------------|
| CONSOLIDATED BALANCE SHEETS <sup>(1)</sup>  | Audited           | Var. 16-15   | Unaudited <sup>(2)</sup> |
| (Under IFRS-EU)   | (thousands of €)  | (%)          | (thousands of €)         |
| <b>ASSETS</b>   |                   |              |                          |
| <b>1. Cash, cash balances in Central Banks and other deposits on demand .....</b>                       | <b>916,380</b>    | <b>70</b>    | <b>539,021</b>           |
| <b>2. Financial assets held for trade .....</b>   | <b>30,264</b>     | <b>(9)</b>   | <b>33,177</b>            |
| Memorandum item: lent or delivered as guarantee with a right of sale or pledged                         | --                | --           | --                       |
| <b>3. Financial Assets at fair value with changes recognised in P&amp;L .....</b>                       | <b>--</b>         | <b>--</b>    | <b>--</b>                |
| Memorandum item: lent or delivered as guarantee with a right of sale or pledged ....                    | --                | --           | --                       |
| <b>4. Available for sale financial assets .....</b>   | <b>7,591,542</b>  | <b>(12)</b>  | <b>8,617,182</b>         |
| Memorandum item: lent or delivered as guarantee with a right of sale or pledged ....                    | 1,106,013         | (63)         | 2,989,028                |
| <b>5. Loans and receivables .....</b>   | <b>24,224,802</b> | <b>(4)</b>   | <b>25,197,737</b>        |
| Memorandum item: lent or delivered as guarantee with a right of sale or pledged ....                    | 814,015           | (37)         | 1,297,515                |
| <b>6. Held-to-maturity investments .....</b>  | <b>--</b>         | <b>(100)</b> | <b>2,142,291</b>         |
| Memorandum item: lent or delivered as guarantee with a right of sale or pledged ....                    | --                | (100)        | 1,099,045                |
| <b>7. Derivatives- Hedge Accounting.....</b>  | <b>449,142</b>    | <b>14</b>    | <b>393,801</b>           |
| <b>8. Changes in fair value of the hedged items of a portfolio with hedged interest rate risk .....</b> | <b>--</b>         | <b>--</b>    | <b>--</b>                |
| <b>9. Share for the investments in joint ventures and associates .....</b>                              | <b>348,697</b>    | <b>(10)</b>  | <b>386,744</b>           |
| 9.1. Jointly controlled entities.....   | 41,788            | (2)          | 42,595                   |
| 9.2. Associates.....  | 306,909           | (11)         | 344,149                  |
| <b>10. Assets covered by insurance and reinsurance contracts .....</b>                                  | <b>--</b>         | <b>--</b>    | <b>--</b>                |
| <b>11. Tangible assets .....</b>  | <b>905,614</b>    | <b>31</b>    | <b>693,012</b>           |
| 11.1. Property, plant and equipment.....  | 518,040           | (14)         | 605,847                  |
| 11.1.1. For own use .....   | 517,823           | (14)         | 605,630                  |
| 11.1.2. Leased out under an operating lease .....   | 217               | 0            | 217                      |
| 11.2. Investment property.....  | 387,574           | 345          | 87,165                   |
| 11.2.1. Of which: leased out under an operating lease.....  | 354,125           | 306          | 87,165                   |
| Memorandum: item acquired under a finance lease .....   | --                | --           | --                       |
| <b>12. Intangible assets .....</b>  | <b>123,393</b>    | <b>36</b>    | <b>90,580</b>            |
| 12.1. Goodwill.....   | 22,742            | 0            | 22,742                   |
| 12.2. Other intangible assets.....  | 100,651           | 48           | 67,838                   |
| <b>13. Tax assets.....</b>  | <b>1,826,603</b>  | <b>(7)</b>   | <b>1,964,692</b>         |
| 13.1. Current tax assets.....   | 63,334            | (37)         | 100,586                  |
| 13.2. Deferred tax assets.....  | 1,763,269         | (5)          | 1,864,106                |
| <b>14. Other assets .....</b>   | <b>95,795</b>     | <b>(62)</b>  | <b>249,446</b>           |
| 14.1. Insurance contracts linked to pensions.....   | 499               | (3)          | 517                      |
| 14.2. Inventories .....   | 12,015            | 10           | 10,931                   |
| 14.3. Remainder of other assets.....  | 83,281            | (65)         | 237,998                  |
| <b>15. Non-current assets and disposable groups of items classified as held for sale</b>                | <b>1,812,206</b>  | <b>(1)</b>   | <b>1,828,331</b>         |
| <b>Total assets .....</b>   | <b>38,324,438</b> | <b>(9)</b>   | <b>42,136,014</b>        |

(1) According to the Restructuring Plan, as of 31 December 2016, the balance sheet size should not exceed €39,960 million (see "Risk Factors—If the Issuer were not to comply with the Restructuring Plan, it could be subject to resolution").

(2) Breakdown presented in accordance with Circular 5/2015 of the CNMV based on the 2015 audited financial statements.

|  | 31/12/2016       |            | 31/12/2015               |
|--|------------------|------------|--------------------------|
| CONSOLIDATED BALANCE SHEETS <sup>(1)</sup><br>(Under IFRS-EU)  | Audited          | Var. 16-15 | Unaudited <sup>(2)</sup> |
|  | (thousands of €) | (%)        | (thousands of €)         |
| LIABILITIES AND EQUITY   |                  |            |                          |
| 1. Financial liabilities held for trade .....  | 31,611           | (24)       | 41,621                   |
| 2. Financial liabilities at fair value with changes recognised in P&L.....                                       | --               | --         | --                       |
| Memorandum item: subordinated liabilities.....   | --               | --         | --                       |
| 3. Financial liabilities at amortised cost .....   | 35,021,575       | (9)        | 38,655,382               |
| Memorandum item: subordinated liabilities.....   | 126,258          | (7)        | 136,470                  |
| 4. Derivatives- Hedge Accounting.....  | 59,068           | 51         | 38,996                   |
| 5. Changes in fair value of the hedged items of a portfolio with hedged interest rate risk .....                 | --               | --         | --                       |
| 6. Liabilities under insurance contracts .....   | 8,182            | (20)       | 10,269                   |
| 7. Provisions .....  | 416,086          | 10         | 378,590                  |
| 7.1. Pensions and other obligations of post-employment defined benefits.....                                     | 108,806          | (18)       | 133,225                  |
| 7.2. Other long term employee benefits.....  | 3,570            | (21)       | 4,517                    |
| 7.3. Outstanding procedural issues and litigation for taxes.....   | 2,946            | (7)        | 3,182                    |
| 7.4. Commitments and guarantees granted .....  | 27,652           | (56)       | 63,366                   |
| 7.5. Other provisions .....  | 273,112          | 57         | 174,300                  |
| 8. Tax liabilities .....   | 123,176          | (50)       | 244,670                  |
| 8.1. Current tax liabilities .....   | 8,359            | 149        | 3,356                    |
| 8.2. Deferred tax liabilities .....  | 114,817          | (52)       | 241,314                  |
| 9. Share capital payable on demand .....   | --               | --         | --                       |
| 10. Other liabilities.....   | 112,520          | (16)       | 134,330                  |
| Total liabilities.....   | 35,772,218       | (9)        | 39,503,858               |
| EQUITY   |                  |            |                          |
| 1. Shareholders' equity .....  | 2,410,573        | 6          | 2,283,660                |
| 1.1. Share capital.....  | 818,358          | 0          | 814,687                  |
| 1.1.1. Share capital paid .....  | 818,358          | 0          | 814,687                  |
| 1.1.2. Share capital payable.....  | --               | --         | --                       |
| Memorandum item: Uncalled share capital no.....  | --               | --         | --                       |
| 1.2. Issue premium .....   | 1,328,714        | 0          | 1,327,292                |
| 1.3. Equity instruments issued different than share capital .....  | --               | --         | --                       |
| 1.4. Other Equity items.....   | --               | --         | --                       |
| 1.5. Accumulated gains .....   | 172,120          | 23         | 140,296                  |
| 1.6. Revaluation reserves.....   | --               | --         | --                       |
| 1.7. Other reserves.....   | (25,556)         | (67)       | (78,080)                 |
| 1.8. Treasury shares.....  | (11,871)         | 36         | (8,742)                  |
| 1.9. Profit(loss) attributable to the Parent Company owners.....   | 128,808          | 0          | 128,548                  |
| 1.10. Interim Dividends.....   | --               | --         | (40,341)                 |
| 2. Other accumulated comprehensive income .....  | 97,180           | (64)       | 272,381                  |
| 2.1. Items not to be transferred to profit and loss.....   | 7,212            | (23)       | 9,314                    |
| 2.1.1. Actuarial gains (losses) on defined benefits pension plans .....  | 7,212            | (23)       | 9,314                    |
| 2.1.2. Non-current assets and disposal groups classified as held for sale .....                                  | --               | --         | --                       |
| 2.1.3. Shareholding in other recognised income and expense of investments in joint ventures and associates ..... | --               | --         | --                       |
| 2.1.4. Other valuation adjustments .....   | --               | --         | --                       |
| 2.2. Items to be transferred to profit and loss.....   | 89,968           | (66)       | 263,067                  |
| 2.2.1. Hedge of net investments in foreign operations.....   | --               | --         | --                       |
| 2.2.2. Foreign currency translation .....  | --               | --         | --                       |

| CONSOLIDATED BALANCE SHEETS <sup>(1)</sup><br>(Under IFRS-EU)   | 31/12/2016                  |                   | 31/12/2015                                   |
|---|-----------------------------|-------------------|--|
|   | Audited<br>(thousands of €) | Var. 16-15<br>(%) | Unaudited <sup>(2)</sup><br>(thousands of €) |
| 2.2.3. Hedge derivatives. Cash flow hedges .....  | --                          | --                | --   |
| 2.2.4. Available-for-sale financial assets .....  | 85,110                      | (62)              | 222,561                                      |
| 2.2.4.1. Debt instruments .....   | 74,082                      | (68)              | 233,515                                      |
| 2.2.4.2. Equity instruments .....   | 11,028                      | (201)             | (10,954)                                     |
| 2.2.4.3. Non-current assets and disposal groups classified as held<br>for sale .....                                | --                          | --                | --   |
| 2.2.5. Shareholding in other recognised income and expense of<br>investments in joint ventures and associates ..... | 4,858                       | (88)              | 40,506                                       |
| <b>3. Minority interest .....</b>   | <b>44,467</b>               | <b>(42)</b>       | <b>76,115</b>                                |
| 3.1. Other accumulated comprehensive income .....   | 8,380                       | (40)              | 13,918                                       |
| 3.2. Other items .....  | 36,087                      | (42)              | 62,197                                       |
| <b>Total equity .....</b>   | <b>2,552,220</b>            | <b>(3)</b>        | <b>2,632,156</b>                             |
| <b>Total liabilities and equity .....</b>   | <b>38,324,438</b>           | <b>(9)</b>        | <b>42,136,014</b>                            |
| MEMORANDUM ITEM   |                             |                   |  |
| <b>1. Guarantees granted .....</b>  | <b>596,447</b>              | <b>(2)</b>        | <b>607,112</b>                               |
| <b>2. Contingent commitments granted .....</b>  | <b>3,983,898</b>            | <b>0</b>          | <b>3,995,197</b>                             |

(1) According to the Restructuring Plan, as of 31 December 2016, the balance sheet size should not exceed €39,960 million (*See Risk Factors—“If the Issuer were not to comply with the Restructuring Plan, it could be subject to resolution”*).

(2) Breakdown presented in accordance with Circular 5/2015 of the CNMV based on the 2015 audited financial statements.

## Main balance sheet variations between 2016 and 2015

### ASSETS

Following is a description of the variations in the main “asset” items:

- **“Cash, cash balances in Central Banks and other deposits on demand”:** the balance of this item mainly depends on the requirements established by the Bank of Spain for the maintenance of the coefficient of minimum reserves, which are presented in terms of monthly-average balances. The balance at 31 December of each year may vary due to the conditions of liquidity and volatility of the markets.
- **“Available for sale financial assets”:** at 31 December 2016, the balance of this item amounted to €7,592 million, with a year-on-year decrease of €1,025 million (a decrease of €1,004 million in fixed income security and a decrease of €21 million in equities). The decrease in the fixed income was mainly due to public debt purchase-sale transactions. Regarding equities, the decrease was due to the sale of EDP Renovables (€25 million).
- **“Loans and receivables”:** the most important item in this section is “*loans and advances*”, with a net balance at 31 December 2016 of €21,995 million and a decrease of 3.8% compared to 2015.

The gross balance, i.e., the financing granted to customers, without valuation adjustments or credit loss allowances, at 31 December 2016 amounted to €23,006 million, with a decrease of 5.8% compared to 2015. The decrease is mainly due to a reduction in the real estate developers (€994 million). Household mortgages were also reduced by €448 million.

Due to the improvement in the financing conditions and commercial actions developed by the Issuer, loans and advances to customers stabilised and subscriptions increased. During 2016, 61,798 loan and credit transactions were granted up to an aggregate amount of €4,052 million, implying an increase of 28.8% compared to 2015 (47,606 transactions performed, amounting €3,146 million).

At 31 December 2016, NPL totalled €3,205 million, showing a decrease of €1,713 million mainly in the portfolio covered by the APS (€1,407 million). The NPL ratio reached 13.9%. This last ratio was of 20.1% at 31 December 2015.

Additionally, the credit loss allowances, which continued the downward trend of the last two years and amounted to €1,275 million at 31 December 2016, decreased by €715 million during the year, leading to a NPL coverage level of 39.8% for the whole Group (45.5%, including “floor clauses” contingencies). At

the end of 2015, the credit loss allowances totalled €1,991 million, implying a NPL coverage level of 40.5%, (48.4%, including the unspent APS funds allocated to the credit).

The fixed-income portfolio, recorded in the sub-item “*debt securities*”, had a balance at 31 December 2016 of €2,230 million, and a decrease of €96 million compared to 2015, due to a decrease of the SAREB bonds of €118 million (€94 million from early repayments and €24 million from the scope correction). They were all considered high-quality assets suitable as guarantees for the inter-bank markets funding or as collateral in the ECB.

- **“Held-to-maturity investments”**: closed 2016 with an annual decrease of €2,142 million, due to the reclassification in the consolidated accounts to “*Available for sale financial assets*”. This item balance is reduced to zero as of 31 December 2016.
- **“Derivatives- Hedge Accounting”**: this balance sheet item mainly contains the valuation of the swaps related to covered bonds. In 2016, this item experienced an annual increase of €55 million due to changes in the valuation of bond hedging and securitisation swaps.
- **“Share for the investments in joint ventures and associates”**: with a balance of €349 million at 31 December 2016, and a decrease of €38 million compared to 2015, corresponding to variations in the theoretical value of the following companies: Oppidum Capital, S.L. (decrease by €51 million) and CCM Vida y Pensiones de Seguros y Reaseguros, S.A. (increase by €14 million).
- **“Tangible assets”**: at 31 December 2016, the balance stood at €906 million, registering an increase of €213 million compared to 2015 due to the reclassification in the consolidated accounts of the foreclosed assets (formerly registered “*Non-current assets held for sale*”) to “*Investment property*” (rental properties).
- **“Intangible assets”**: at 31 December 2016, it had a balance of €123 million, which included “*goodwill*” (€23 million) and “*other intangible assets*” (€100 million), mainly computer applications.
- **“Tax assets”**: with a balance of €1,827 million at 31 December 2016, a decrease of €138 million, of which €37 million correspond to “*current tax assets*” and €101 million to “*deferred tax assets*”. The variation of tax assets is due to the non-deductibility of the investments impairments according to RD 3/2016 (€16 million decrease), the tax effect of adjustments to net shareholders equity (€15 million decrease), the inset of tax loss carryforwards and deductions pending application from previous years in the 2016 tax base (a €30 million decrease) and to a net change of tax assets and liabilities offset (a €38 million decrease).
- **“Non-current assets and disposable groups of items classified as held for sale”**: at 31 December 2016, this heading showed a balance of the residential, rural and other types of real estate assets for sale, with a net value of €1,812 million, mainly related to foreclosed assets. During 2016, this item experienced a decrease of €16 million, corresponding to foreclosed assets.

## LIABILITIES

Following is a description of the variations of the main items of “*liabilities*”:

- **“Financial liabilities held for trade”**: mainly contains financial swaps on interest rates and interest rate options. The annual variations of this section are due to contracting, maturities and changes in the value of this type of transactions, which have a minor impact on the balance sheet of the Group.
- **“Financial liabilities at amortised cost”**: this section consists of the following components:
 

“*Deposits*” closed 2016 with a balance of €34,378 million, leading to a decrease of €3,507 million compared to 2015, mainly due to a decrease in customer deposits of €4,621 million. The main variations come from a reduction in repos of €3,431 million, an increase of wholesale customers balances of €75 million, a decrease of €599 million from the APS account, negative valuation adjustments by €22 million, a decrease of €880 million due to maturities of covered bonds, an increase of debt securities issued (€30 million) and an increase of €207 million in retail customers funds. In addition, deposits from central banks increased by €585 million, due to the ECB funding growth and to a credit institutions deposit growth of €529 million in repos.

“*Marketable debt securities and subordinated liabilities*” at the end of fiscal year 2016 presented a balance of €424 million and an decrease of €133 million related to a decrease in promissory notes of €123 million and a decrease of €10 million derived from conversion of contingent convertible bonds (CoCos).



The item “*other financial liabilities*” posted a balance of €219 million at 31 December 2016 and an annual increase of €6 million. This item includes collection accounts, outstanding payment orders, travellers’ checks, payments obligations of different natures, etc.

- **“Derivatives- Hedge Accounting”**: related to the hedging of covered bonds. At 31 December 2016, its balance amounted to €59 million and reflected an annual increase of €20 million, related to the value increase of the fixed income term sales.
- **“Liabilities under insurance contracts”**: at 31 December 2016 this item of the consolidated balance sheet includes financial or technical guarantees fees amounting €8 million. At 31 December 2016 and 2015, no amount was recorded as a life insurance technical provision.
- **“Provisions”**: posted at 31 December 2016 a balance of €416 million, €37 million more than at the end of 2015. This item includes the provisions for pensions, taxes and contingent risks, among others. The variation is mainly due to the net change of “floor clauses” allowances (a €100 million increase).
- **“Tax liabilities”**: posted at 31 December 2016 a balance of €123 million with an annual decrease of €121 million mainly related to the net change of tax assets and liabilities offset (a €38 million decrease) and a €80 million decrease in equity tax liabilities.
- **“Other liabilities”**: the balance at 31 December 2016 amounted to €113 million and reflected an annual decrease of €22 million, mainly derived from a decrease in accruals.
- **“Equity”**: at 31 December 2016 amounted to €2,552 million, a decrease of €80 million compared to 2015. The main variations come from the items “shareholders equity”, with an annual increase of €127 million corresponding to the 2016 profit attributable, “*items to be transferred to profit and loss from Available-for-sale financial assets*”, with a decrease of €137 million from 2015 corresponding to the smaller capital gains of this portfolio, after materializing €345 million of gains on financial assets sales, “Shareholding in other recognised income and expense of investments in joint ventures and associates” with a decrease of €36 million from 2015 and “Minority interest” with an annual decrease of €32 million compared to 2015.



## Consolidated income statements of the Group for the years ended 31 December 2016 and 2015

| CONSOLIDATED INCOME STATEMENTS<br>(Under IFRS-EU)  | 31/12/2016       |            | 31/12/2015               |
|--|------------------|------------|--------------------------|
|  | Audited          | Var. 16-15 | Unaudited <sup>(1)</sup> |
|  | (thousands of €) | (%)        | (thousands of €)         |
| 1. Interest income.....  | 604,873          | (20)       | 757,697                  |
| 2. Interest expense.....   | (150,448)        | (43)       | (263,411)                |
| 3. Expenses on share capital payable on demand .....   | --               | --         | --                       |
| A) Net interest income .....   | 454,425          | (8)        | 494,286                  |
| 4. Dividend income .....   | 2,842            | (52)       | 5,879                    |
| 5. Profit (loss) of companies accounted for using the equity method .....  | 23,072           | (74)       | 89,587                   |
| 6. Commissions income.....   | 190,093          | 1          | 189,127                  |
| 7. Commissions expenses .....  | (7,932)          | 25         | (6,332)                  |
| 8. Gains or losses for derecognition of financial assets and liabilities not measured at fair value with changes in profit and loss (net)..... | 345,260          | 75         | 197,213                  |
| 9. Gains or losses on financial assets and liabilities held for trade (net).....   | (382)            | (91)       | (4,371)                  |
| 10. Gains or losses on financial assets and liabilities measured at fair value with changes in profit and loss (net) .....                     | --               | --         | --                       |
| 11. Gains or losses from the hedge accounting, net .....   | --               | --         | --                       |
| 12. Net exchange differences .....   | 902              | 63         | 554                      |
| 13. Other operating income.....  | 30,536           | (8)        | 33,208                   |
| 14. Other operating expenses .....   | (99,655)         | 16         | (86,031)                 |
| 15. Income from assets covered by insurance or reinsurance contracts.....  | --               | (100)      | 853                      |
| 16. Expenses from liabilities covered by insurance or reinsurance contracts....  | --               | --         | --                       |
| B) Gross income.....   | 939,161          | 3          | 913,972                  |
| 17. Administrative expenses .....  | (391,451)        | (1)        | (396,918)                |
| 17.1. Staff costs .....  | (247,759)        | (4)        | (258,158)                |
| 17.2. Other administrative expenses.....   | (143,692)        | 4          | (138,760)                |
| 18. Depreciation .....   | (36,845)         | (4)        | (38,448)                 |
| 19. Provisions or provisions reversed .....  | (132,674)        | (27)       | (182,031)                |
| 20. Impairment loss or reversal of impairment loss of financial assets not measured at fair value with changes in profit and loss .....        | (142,561)        | (35)       | (219,801)                |
| 20.1. Financial assets valued at cost.....   | --               | --         | --                       |
| 20.2. Available-for-sale financial assets .....  | (7,665)          | 13         | (6,760)                  |
| 20.3. Loans and accounts receivable .....  | (134,896)        | (36)       | (210,510)                |
| 20.4. Investments held until maturity.....   | --               | (100)      | (2,531)                  |
| C) Operating profit/(loss) .....   | 235,630          | 207        | 76,774                   |
| 21. Impairment loss or reversal of impairment loss of investments in joint ventures or associates.....   | --               | --         | --                       |
| 22. Impairment loss or reversal of impairment loss of non financial assets .....   | (22,723)         | --         | (725)                    |
| 22.1. Tangible assets .....  | (199)            | (66)       | (578)                    |
| 22.2. Intangible assets .....  | --               | --         | --                       |
| 22.3. Other .....  | (22,524)         | --         | (147)                    |
| 23. Gains or losses for derecognition of non-financial assets and shares (net).....  | 1,687            | 39         | 1,217                    |
| 24. Negative goodwill recognised in profit and loss .....  | --               | --         | --                       |
| 25. Gains or losses from non current assets and disposable groups classified as held for sale not allowed as discontinuing activities .....    | (63,493)         | 75         | (36,198)                 |
| D) Gains or losses before taxes from continuing activities .....   | 151,101          | 268        | 41,068                   |
| 26. Expenses or income on gains from continuing operations .....   | (48,395)         | (168)      | 70,959                   |
| E) Gains or losses after taxes from continuing activities .....  | 102,706          | (8)        | 112,027                  |
| 27. Gains or losses after taxes from discontinuing activities .....  | --               | --         | --                       |
| F) Profit/(loss) for the period .....  | 102,706          | (8)        | 112,027                  |
| F 1) Attributable to minority interests .....  | (26,102)         | 58         | (16,521)                 |

| CONSOLIDATED INCOME STATEMENTS<br>(Under IFRS-EU)     | 31/12/2016       |            | 31/12/2015               |
|---|------------------|------------|--------------------------|
|   | Audited          | Var. 16-15 | Unaudited <sup>(1)</sup> |
|   | (thousands of €) | (%)        | (thousands of €)         |
| F 2) Attributable to the Parent Company's owners..... | 128,808          | 0          | 128,548                  |
| <b>Earnings per share from continued operations</b>   |                  |            |                          |
| Basic earnings per share.....                         | 0.143            | (4)        | 0.149                    |
| Diluted earnings per share .....                      | 0.136            | (6)        | 0.145                    |

(1) Breakdown presented in accordance with Circular 5/2015 of the CNMV based on the 2015 audited financial statements.

## Main variations in the consolidated income statement between the years 2016 and 2015

“*Net interest income*” amounted to €454 million, or 1.1% of the average total assets (ATA), and presented a decrease of 8.1% compared to year-end of 2015. This decrease was due mainly to the reduction of credit income, within the retail segment, which was more intensive than the reduction of costs.

“*Interest income*” amounted to €605 million at the end of 2016, and implied a decrease of 20.2% with respect to 2015. This item included interest and similar income derived from loans to customers (€415 million) and those corresponding to the debt securities portfolio, interbank lending and other financial income (€190 million). The financial income of the credit from loans and advances decreased in annual terms by €107 million, mainly due to amortisations (€26 million), and the decrease of interest rates (€92 million). The reduction of NPLs had a positive effect on interest income (€11 million).

Therefore, 24% of the decrease of the loans interest income was due to a decrease in the average accumulated balances, and 86% to the decrease of interest rates. The decrease of NPLs therefore had a positive effect on the loan structure, slightly offsetting the decrease, as a result of the two aforementioned factors.

The profitability of performing credit in 2016 was 2.0%, and that of the non-performing credit was 0.7%.

“*Interest expense*” amounted to €150 million, and implied a decrease of 42.9% in regard to 2015. This item registers the costs of wholesale and retail financing and other interest expenses. Retail financial costs amounted to €44 million and reflected a decrease of €59 million compared to the year-end of 2015, leading the average retail financial cost to reach 0.2% (0.4% during 2015). Wholesale financial costs amounted to €99 million and reflected a decrease of €44 million compared to 2015, leading the average wholesale financial cost to reach 0.7% (1.0% during 2015). The remaining financial expenses amounted to €7 million.

The investment in various companies, in which the Group has a stable interest resulted in returns from dividends in the amount of €3 million in 2016 (€6 million in 2015). This income is reflected in the “*return on capital instruments*” item of the consolidated public accounts and was reduced over the year-end 2016, mainly due to the sale of interests (EDP Renovables, being the most relevant).

Net fees amounted to €182 million and experienced a 0.3% decrease with respect to 2015. Commissions of a recurrent nature reflect a 2.1% increase compared to year-end 2015, based on insurance and mutual funds business (with year-on-year growth of 5.2% and 46.3%, respectively).

The gains (losses) on financial assets and liabilities (net) and exchange differences totalled €346 million, mainly derived from the management of the fixed income portfolio of the Group.

The results recorded as other operating income and expenses reflect a net expense of €69 million, which include the contribution to the Deposits Guarantee Fund (€33 million), the tax on deposits (€9 million), the contribution to the resolution funds (€11 million), the monetizable deferred tax assets financial contribution (€13 million), and other expenses of diverse natures.

All these factors have determined a “gross margin” at the end of 2016 of €939 million, 2.8% higher than that of 2015.

“*Staff costs*” amounted to €248 million, with a year-on-year reduction of 4.0%.

*“Other administrative expenses”* totalled €144 million, with an increase of 3.6% compared to year-end 2015. The evolution of costs determined an efficiency ratio (calculated as the quotient between general administrative expenses and gross margin) of 41.7%, slightly below that of 2015 (due to the increase in gains on financial assets and liabilities, an increase of 78.8% in year-on-year terms).

*“Provisions or provisions reversed”* amounted to €133 million, and is mainly intended to cover legal contingencies. In the fourth quarter of 2016, a provision of €127 million was registered, resulting from recalculating the expected disbursements for claims related to floor clauses. These contingencies are not expected to result in an additional equity impact.

*“Impairment loss or reversal of impairment loss of financial assets not measured at fair value with changes in profit and loss”* of the Group amounted to €143 million, €77 million less than year 2015. Of this item, €135 million corresponded to write-offs of the credit investment and the remaining €8 million to security write-offs. Regarding the investment credit, the cost of the risk was at 0.59%.

*“Gains or losses for derecognition of non-financial assets and shares (net)”* recorded €2 million in positive results, from sales of real estate for own use.

The item *“gains or losses from non current assets and disposable groups classified as held for sale not allowed as discontinuing activities”* with a negative final balance of €63 million, mainly included write-offs of non-current assets held for sale, of which €89 million covered the deficit of the APS, and €24 million as a consequence of the due diligence on the financial assets transferred to the SAREB in 2013.

For the period ended 31 December 2016, the attributable net profit reached €129 million, the return on equity (ROE) was 4.9% and the return on average total assets (ROA) was 0.3%.

## **APMs**

This Prospectus (and documents incorporated by reference to this Prospectus) contains metrics that constitute Alternative Performance Measures (“APMs”) as defined in the ESMA Guidelines introduced in July 2016 (the “**ESMA Guidelines**”). The Issuer 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 the Issuer.

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 financial statements of the Issuer 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 the Issuer, 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 the Issuer’s audited consolidated financial statements for the years ended 31 December 2016 and 2015. 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 the Issuer’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 financial statements of the Issuer for the years 2016 and 2015 incorporated by reference to this Prospectus.

The Issuer 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:

| ALTERNATIVE PERFORMANCE MEASURES (APMs)                 | COMPONENTS  |  | DECEMBER-16 | DECEMBER-15 | UNIT         |
|---|-------------|--|-------------|-------------|--------------|
| ROA (Return on assets)                                  | Numerator   | Attributable net profit                      | 128.8       | 128.5       | Million euro |
|   | Denominator | Average total assets <sup>(1)</sup>          | 41,561.0    | 42,531.9    | Million euro |
|   | Ratio       |  | 0.31        | 0.30        | Per cent     |
| ROE (Return on equity)                                  | Numerator   | Attributable net profit                      | 128.8       | 128.5       | Million euro |
|   | Denominator | Average equity <sup>(2)</sup>                | 2,635.7     | 2,246.1     | Million euro |
|   | Ratio       |  | 4.89%       | 5.72%       | Per cent     |
| Cost to income (or efficiency ratio)                    | Numerator   | Administrative costs                         | 391.5       | 396.9       | Million euro |
|   | Denominator | Gross margin                                 | 939.2       | 914.0       | Million euro |
|   | Ratio       |  | 41.7%       | 43.4%       | Per cent     |
| Non-performing loans ratio                              | Numerator   | Impaired gross customer loans <sup>(3)</sup> | 3,205.3     | 4,918.8     | Million euro |
|   | Denominator | Gross customer loans <sup>(3)</sup>          | 23,005.6    | 24,421.3    | Million euro |
|   | Ratio       |  | 13.9%       | 20.1%       | Per cent     |
| Loan to deposit   | Numerator   | + Net loans                                  | 21,900.4    | 22,809.6    | Million euro |
|   |             | - Temporary asset acquisitions               | 0.0         | 0.0         | Million euro |
|   | Denominator | + Customer deposits                          | 29,934.7    | 34,555.5    | Million euro |
|   |             | - Mortgage bonds                             | -4,549.6    | -5,430.0    | Million euro |
|   |             | + Retail CoCos                               | 130.3       | 139.3       | Million euro |
|   |             | - Repos                                      | -152.4      | -3,696.4    | Million euro |
|   |             | + Promissory notes                           | 118.0       | 107.9       | Million euro |
|   | Ratio       |  | 85.9%       | 88.8%       | Per cent     |
| Non-performing loans coverage (including available APS) | Numerator   | + Customer credit loss allowances            | 1,275.5     | 1,990.8     | Million euro |
|   |             | + APS available allocated to credit          | 0.0         | 390.1       | Million euro |
|   | Denominator | Impaired gross customer loans <sup>(3)</sup> | 3,205.3     | 4,918.8     | Million euro |
|   | Ratio       |  | 39.8%       | 48.4%       | Per cent     |

| ALTERNATIVE PERFORMANCE MEASURES (APMs)              | COMPONENTS  |  | DECEMBER-16 | DECEMBER-15 | UNIT         |
|--|-------------|--|-------------|-------------|--------------|
| Foreclosed assets coverage (including available APS) | Numerator   | + Foreclosed assets loss allowances                                | 1,347.2     | 1,206.8     | Million euro |
|  | Denominator | Foreclosed assets  | 3,424.8     | 3,024.8     | Million euro |
|  | Ratio       |  | 39.3%       | 39.9%       | Per cent     |
| Cost of risk   | Numerator   | + Recurrent credit impairment losses (annualized)                  | 134.9       | 135.5       | Million euro |
|  |             | + Non-recurrent credit impairment losses                           | 0.0         | 75.0        | Million euro |
|  | Denominator | Gross customer loans <sup>(3)</sup>                                | 23,005.6    | 24,421.3    | Million euro |
|  | Ratio       |  | 0.59%       | 0.86%       | Per cent     |
| Property development non-performing loans ratio      | Numerator   | Impaired gross customer loans, property development <sup>(3)</sup> | 1,284.0     | 2,270.3     | Million euro |
|  | Denominator | Gross customer loans, property development <sup>(3)</sup>          | 1,449.1     | 2,443.1     | Million euro |
|  | Ratio       |  | 88.6%       | 92.9%       | Per cent     |
| Property development non-performing loans coverage   | Numerator   | + Customer credit loss allowances, property development            | 536.0       | 710.2       | Million euro |
|  | Denominator | Impaired gross customer loans, property development <sup>(3)</sup> | 1,284.0     | 2,270.3     | Million euro |
|  | Ratio       |  | 41.7%       | 31.3%       | Per cent     |

(1) Calculated as simple average of total assets of all monthly consolidated balance sheets of the current year (including the last December balance sheet), using half the sum of extremes.

(2) Calculated as simple average of total equity of all monthly consolidated balance sheets of the current year (including the last December balance sheet), using half the sum of extremes.

(3) Includes the risks on "Loans and advances to customers" (excluding value adjustments and debts included in the reserved balance under the "Other financial liabilities" heading).

## 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 such country 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 RD 1065/2007;
- (b) for individuals resident for tax purposes in Spain which are subject to Law 35/2006, dated 28 November 2006, on 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 27 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 Spanish NRIT Law, 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, ie 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%; (ii) for taxable income from €6,001 to €50,000: 21%; and (iii) for any amount in excess of €50,000: 23%

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% 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% and 2.5% 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 at 31 December in each year, when calculating their Wealth Tax liabilities.

In accordance with Royal Decree 13/2011, of 16 September and 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*), from the year 2017, a general 100% tax relief applies. However, the application of such tax relief was also anticipated and ultimately rejected by Spanish Tax Authorities with respect to fiscal years 2015, 2016 and 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% and 81.6% depending on relevant factors.

#### ***Legal entities with tax residency in Spain***

##### *Corporate Income Tax (Impuesto sobre Sociedades)*

Both interest periodically received, income derived from the transfer, redemption or repayment or any other income recognised in respect of the Notes are subject to CIT (at the current general tax rate of 25%) 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 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 belong to 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 rule applicable to income deriving from such Notes is the Royal Legislative Decree 5/2004 of 5 March, of the Non Resident Income Tax (“**NRIT**”), that generally are 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. No withholding tax will be imposed on interest payments or on income derived from the redemption or repayment of the Notes.

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 not become applicable but generally such person or legal entity must include the market value of the Notes in their taxable income for NRIT purposes.

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)*

According to the Additional Provision One of Law 10/2014, 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 2017, 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% and 2.5%.

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 Royal Decree 13/2011, of 16 September and 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*), from the year 2017, a general 100% tax relief applies. However, the application of such tax relief was also anticipated and ultimately rejected by Spanish Tax Authorities with respect to fiscal years 2015, 2016 and 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% and 81.6%, depending on relevant factors.

Non-Spanish tax resident legal entities not acting in respect of the Notes through a permanent establishment in Spain 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.

#### ***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 RD 1065/2007, 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% 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 Commission’s proposal for a Directive for a common FTT in the Participating Member States. However, Estonia has since stated that it will not participate.

The Commission’s proposal has a 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**”), Banco Bilbao Vizcaya Argentaria, S.A. and Barclays Bank PLC (together with the Structuring Bank, the “**Joint Lead Managers**”) have, in a subscription agreement dated 9 March 2017 (the “**Subscription Agreement**”) made between the Issuer and the Joint Lead Managers 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 Joint Lead Managers, and to reimburse the Structuring Bank for certain of its expenses incurred in connection with the structuring and management of the issue of the Notes. The Joint Lead Managers are 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 Joint Lead Managers have agreed that, except as permitted by the Subscription Agreement, they 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

Each Joint 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.

### Spain

The Notes may not be sold, offered or distributed in Spain in circumstances which constitute a public offer of securities in Spain within the meaning of the LMV and further relevant regulations unless such sale, offer or distribution is made in compliance with the provisions of the LMV and any other applicable regulations.

### Italy

No application has been or will be made by any person to obtain an authorization from Commissione Nazionale per le Società e la Borsa (CONSOB) for the public offering (“*offerta al pubblico*”) of the Notes in the Republic of Italy. Accordingly, the Notes may not be offered, sold or delivered, nor may copies any document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Italian Financial Services Act**”) and as defined in Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Services Act and the relevant implementing regulations including Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of any document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (a) made only by an investment firms (“*imprese di investimento*”), banks or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Legislative Decree no.385 of 1 September 1993 (the “**Italian Banking Act**”) as amended, the Italian Financial Services Act, CONSOB Regulation No.16190 of 29 October 2007, as amended from time to time, and any other applicable law and regulations;
- (b) in compliance with Article 11 and Article 129 of the Italian Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time, in relation, respectively, to deposit taking and certain reporting obligations to the Bank of Italy on the issue or the offer of securities in Italy; and
- (c) in compliance with all applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy, or any other Italian authority.

### **General**

Each Joint 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 any Joint Lead Manager shall have any responsibility therefor.

None of the Issuer nor the Joint Lead Managers 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

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.

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.

### Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the board of directors of the Issuer dated 13 December 2016.

### Interest of natural and legal persons involved in the issue

2. Save for any fees payable to the Joint Lead Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has any interest that is material to the issue. The Joint Lead Managers and their 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 2016 there has been no material adverse change in the prospects of the Issuer.

4.2 In addition to the above since 31 December 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.

### Independent auditors

5. The consolidated financial statements of the Issuer as at, and for the years ended, 31 December 2016 and 2015 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

6. 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.liberbank.es](http://www.liberbank.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 financial statements of the Issuer for each of the years ended 31 December 2016 and 2015 at the registered office of the Issuer, on the Issuer's website ([www.liberbank.es](http://www.liberbank.es)) and on the CNMV's website ([www.cnmv.es](http://www.cnmv.es)).

## Material Contracts

7. 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.

## Joint Lead Managers transacting with the Issuer

8. The Joint Lead Managers and their 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 Joint Lead Managers and their 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 Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead 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 Joint Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## Yield

9. 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 6.875 per cent on an annual basis. However, 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

10. 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 following the Closing Date.

## Expenses related to the admission to trading

11. For informative purposes only, an approximate estimate of the expenses payable by the Issuer in relation to the admission to trading of the Notes is as follows:

| TYPE OF EXPENSE                                       | Euro<br>(estimated amount) |
|---|----------------------------|
| Charges and fees of AIAF and Iberclear .....          | 15,500                     |
| CNMV fees (listing) .....                             | 30,000                     |
| Other (Rating agency, legal advisors, auditors) ..... | 531,000                    |
| <b>TOTAL</b> .....                                    | <b>576,500</b>             |

## **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. Jesús Ruano Mochales, Chief Corporate and Financial Officer of Liberbank, S.A., authorised by a resolution of the board of directors of the Issuer dated 13 December 2016, in Madrid, this 9 March 2017.

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Mr. Jesús Ruano Mochales  
Chief Corporate and Financial Officer

## **ISSUER**

**Liberbank, S.A.**  
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28050 Madrid  
Spain

## **STRUCTURING BANK AND JOINT LEAD MANAGER**

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1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

## **JOINT LEAD MANAGERS**

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

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

## **AGENT**

**Cecabank, S.A.**  
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## **LEGAL ADVISERS**

*To the Issuer as to Spanish law:*

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*To the Issuer as to English law:*

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

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## **INDEPENDENT AUDITORS OF THE ISSUER**

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