IBERCAJA BANCO, S.A.

(incorporated as a limited liability company (sociedad anónima) in Spain)

€350,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities

Issue Price: 100 per cent.

The €350,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities of €200,000 of Original Principal Amount (as defined in the terms and conditions of the Preferred Securities (the "**Conditions**")) each (the "**Preferred Securities**") have been issued by Ibercaja Banco, S.A. (the "**Bank**", the "**Issuer**" or "**Ibercaja**") on 6 April 2018 (the "**Closing Date**"). The Bank and its consolidated subsidiaries are referred to herein as the "**Ibercaja Group**" or the "**Group**".

The Preferred Securities will accrue non-cumulative cash distributions ("**Distributions**") on their Outstanding Principal Amount (as defined in the Conditions), as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 6 April 2023 (the "**First Reset Date**"), at the rate of 7 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate per annum, calculated on an annual basis and then converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.809 per cent. per annum (the "**Initial Margin**") and the 5-year Mid-Swap Rate (as defined in the Conditions) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrear on 6 January, 6 April, 6 July and 6 October, in each year (each a "**Distribution Payment Date**").

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution (including any additional amounts pursuant to Condition 12) in whole or in part at any time as further provided in Condition 4.3. Without prejudice to the right of the Bank to cancel the payments of any Distribution: (a) payments of Distributions in any financial year of the Bank shall be made only to the extent the Bank has sufficient Distributable Items (as defined in the Conditions). To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (b) if the Competent Authority (as defined in the Conditions) requires the Bank to cancel a relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (c) the Bank may make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities if and to the extent that such payment would cause the Maximum Distributable Amount (as defined in the Conditions) to be exceeded or otherwise would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations (as defined in the Conditions); and (d) if the Trigger Event (as defined below) occurs at any time on or after the Closing Date, any accrued and unpaid Distributions up to (but excluding) the Write Down Date (as defined in the Conditions), shall be automatically cancelled.

If at any time the CET1 Ratio of the Group falls below 5.125 per cent. ("Trigger Event"), the Outstanding Principal Amount of the Preferred Securities will be Written Down by the Write Down Amount, as further provided in Condition 6.1. The Outstanding Principal Amount may, in the sole and absolute discretion of the Bank and subject to certain conditions, be subsequently reinstated (in whole or in part) out of any net profits generated by the Group, as further described in Condition 6.2.

The Preferred Securities are perpetual. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, at the Outstanding Principal Amount plus any accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the "**Redemption Price**") provided that any principal amount by which the Preferred Securities have been Written Down has first been reinstated in full. The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions). Subject, in each case, to the prior consent of the Competent Authority and otherwise in accordance with the Applicable Banking Regulations then in force.

Subject to the prior consent of the Competent Authority (and/or otherwise in accordance with the Applicable Banking Regulations then in force), if a Capital Event or Tax Event has occurred and is continuing, the Bank may substitute all (but not some only) of the Preferred Securities or vary the terms of all (but not some only) of the Preferred Securities, without the consent of the Holders, so that they become or remain Qualifying Preferred Securities (as defined in the Conditions).

In the event of any voluntary or involuntary liquidation or winding-up of the Bank, holders of the Preferred Securities ("Holders") will be entitled to receive (subject to the limitations described in the Conditions), in respect of each Preferred Security, the Liquidation Distribution (as defined in the Conditions).

The Preferred Securities are expected to be rated B- by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and B by Fitch Ratings España, S.A.U. ("**Fitch**"). Each of S&P and Fitch is established in the European Union ("**EU**") and is registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the "**CRA Regulation**"). As such, each of S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application has been made for the Preferred Securities to be admitted to trading on the Spanish AIAF Fixed Income Securities Market ("**AIAF**"). The Preferred Securities may also be admitted to trading on any other secondary market as may be agreed by the Issuer.

Amounts payable under the Preferred Securities from and including the First Reset Date are calculated by reference to the 5-year Mid-Swap Rate which appears on the ICESWAP2/ISDAFIX2 screen, which is provided by ICE Benchmark Administration Limited or by reference to EURIBOR 6-month (as defined in the Conditions) which appears on the EURIBOR01 screen, which is provided by the European Money Markets Institute. As of the date of this Prospectus, ICE Benchmark Administration Limited and the European Money Markets Institute do not appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of the Regulation (EU) No 2016/1011 (the "**Benchmark Regulation**"). As far as the Issuer is aware, the transitional provisions in Article

51 of the Benchmark Regulation apply, such that ICE Benchmark Administration Limited and the European Money Markets Institute are required to apply for authorisation or registration before 1 January 2020.

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. The Preferred Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 4 and 5 of this Prospectus for further information.

Prospective purchasers of the Preferred Securities should ensure that they understand the nature of the Preferred Securities and the extent of their exposure to risks and that they consider the suitability of the Preferred Securities as an investment in the light of their own circumstances and financial condition.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 14.

The Preferred Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), and are subject to United States tax law requirements. The Preferred Securities are being offered outside the United States in accordance with Regulation S under the U.S. 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 U.S. Securities Act.

Structuring Advisor and Lead Manager

Barclays

Joint Lead Managers

Banco Bilbao Vizcaya Argentaria, S.A. **J.P. Morgan** **UBS Investment Bank**

The date of this Prospectus is 28 March 2018

IMPORTANT NOTICES

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this 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 Barclays Bank PLC, Banco Bilbao Vizcaya Argentaria, S.A., J.P. Morgan Securities plc and UBS Limited (together, the "**Joint Lead Managers**").

None of the Joint Lead Managers, nor any of their respective affiliates, has separately verified the information contained or incorporated by reference in this Prospectus. None of the Joint Lead Managers nor any of their respective affiliates has authorised the whole or any part of this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Preferred Security shall in any circumstances create any implication that there has been no change in the affairs of the Issuer, or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) of the Issuer, since the date of this Prospectus or that any other information supplied in connection with the Preferred Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers shall not be responsible for, or for investigating, any matter which is the subject of, any statement, representation, warranty or covenant of the Issuer contained in the Preferred Securities, or any other agreement or document relating to the Preferred Securities, or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof.

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

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

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

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

In this Prospectus, unless otherwise specified, references to a "**member state**" are references to a Member State of the European Economic Area, references to "**U.S. dollar**" are to United States dollars, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/1498 of 3 May 1998 on the introduction of the euro, as amended.

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

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

Restrictions on marketing and sales to retail investors

The Preferred Securities issued pursuant to the Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors (see also "*Risk Factors—Risks related to the Preferred Securities*"). In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors. As agreed by the Issuer and the Joint Lead Managers, offers of the Preferred Securities in Spain have only been directed specifically at or made to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No 1286/2014 on key information documents for packaged and retail and insurance-based investment products (the "**PRIIPs Regulation**") became directly applicable in all EEA member states and (ii) the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (as amended, "**MiFID II**") was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and the (ii) offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent convertible or write-down securities such as the Preferred Securities.

The Joint Lead Managers are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase any Preferred Securities (or a beneficial interest in the Preferred Securities) from the Issuer and/or the Joint Lead Managers each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Joint Lead Managers that:

1. it is not a retail client (as defined in MiFID II);

2. whether or not it is subject to the Regulations, it will not:

    (A) sell or offer the Preferred Securities (or any beneficial interest therein) to retail clients (as defined in MiFID II); or

(B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (in each case within the meaning of MiFID II). In selling or offering the Preferred Securities or making or approving communications relating to the Preferred Securities, it may not rely on the limited exemptions set out in the PI Instrument; and

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

Each prospective investor further acknowledges that:

(i) the identified target market for the Preferred Securities (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and

(ii) no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Preferred Securities (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

Each potential investor should inform itself of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Preferred Securities (or any beneficial interests therein), including the Regulations.

PRIIPs Regulation/Prohibition of sales to EEA retail investors – The Preferred Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(I) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(I) of MiFID II. Consequently, no key information document (KID) required by the PRIIPs Regulation for offering or selling the Preferred Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance/Professional investors and eligible counterparties only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Preferred Securities has led to the conclusion that: (i) the target market for the Preferred Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Preferred Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Preferred Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Preferred Securities (by either

adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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OVERVIEW

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

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

Issuer	Ibercaja Banco, S.A.
Risk Factors	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under "*Risk Factors*" below and include the Spanish economy and the global macroeconomic environment and risks relating to increasingly onerous capital requirements, the lack of availability of funding, volatility in interest rates and increased competition. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under "*Risk Factors*".
Issue size	€350,000,000
Issue date	6 April 2018
Issue details	€350,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities of €200,000 Original Principal Amount each. The Issuer has requested that the Preferred Securities qualify as Additional Tier 1 Capital of the Group pursuant to Applicable Banking Regulations.
Original Principal Amount	€200,000 per Preferred Security.
Outstanding Principal Amount	In respect of each Preferred Security, at any time, the Original Principal Amount of such Preferred Security as reduced from time to time by any Write Downs or any other write down or cancellation, as the case may be, and, if applicable, as subsequently increased from time to time by any Write Up in accordance with the Conditions.
Use of Proceeds	Ibercaja intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.
Distributions	The Preferred Securities accrue Distributions on their Outstanding Principal Amount as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7 per cent. per annum; and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Bank on the relevant Reset Determination Date. Subject as provided in

Conditions 4.3 and 4.4 (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 4.

Limitations on Distributions

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution (including any additional amounts pursuant to Condition 12) in whole or in part at any time that it deems necessary or desirable and for any reason. Without prejudice to the right of the Bank to cancel payments of a Distribution:

(a) Payments of Distributions (including any additional amounts pursuant to Condition 12) in any financial year of the Bank shall be made only to the extent the Bank has sufficient Distributable Items. To the extent that the Bank has insufficient Distributable Items to make Distributions (including any additional amounts pursuant to Condition 12) on the Preferred Securities scheduled for payment in the then current financial year and any interest payments, distributions or other payments on own funds items that have been paid or made or are scheduled or required to be paid out of or conditional to sufficient Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank or which are not required to be made conditional upon Distributable Items, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.

(b) If the Competent Authority, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a relevant Distribution (including any additional amounts pursuant to Condition 12) in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.

(c) The Bank may make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities if and to the extent that payment of any Distribution (including any additional amounts pursuant to Condition 12) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV, which will include Article 48 of Law 10/2014 and any of its development provisions), the Maximum Distributable Amount to be exceeded or otherwise would cause any other breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations;

(d) If the Trigger Event occurs at any time on or after the Closing Date, any accrued and unpaid Distributions up to (but excluding) the corresponding Write Down Date (whether or not such distributions have become due for payment) shall be automatically cancelled in accordance with Condition 6.1(a)(iii).

For further information, see Condition 4.

Status of the Preferred Securities

The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank in accordance with Article 92.2º of the Insolvency Law and Additional Provision 14.3º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise).

For further information, see Condition 3.

Optional Redemption

All, and not only some, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Competent Authority and otherwise in accordance with Applicable Banking Regulations, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price, provided that any principal amount by which the Preferred Securities have been Written Down has first been reinstated in full.

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

For further information, see Condition 7.

Substitution and Variation

Subject to the prior consent of the Competent Authority (and/or otherwise in accordance with the Applicable Banking Regulations then in force), if a Capital Event or Tax Event has occurred and is continuing, the Bank may substitute all (but not some only) of the Preferred Securities or vary the terms of all (but not some only) of the Preferred Securities, without the consent of the Holders, so that they become or remain Qualifying Preferred Securities (as defined in the Conditions).

For further information, see Condition 8.

Liquidation Distribution

Subject as provided below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Outstanding Principal Amount per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the relevant amount. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares of the Bank or any other instrument of the Bank ranking junior to the Preferred Securities.

If, before such liquidation or winding-up of the Bank described above, the Trigger Event occurs but the relevant reduction of the Outstanding Principal Amount is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which Holders would have received on any distribution of the assets of the Bank if such reduction had taken place immediately prior to such liquidation or winding-up.

Loss Absorption following a Trigger Event

If at any time the Trigger Event occurs, the Bank will (i) immediately notify the Competent Authority that a Trigger Event has occurred; (ii) as soon as reasonably practicable deliver a Write Down Notice to Holders and file a relevant event announcement (*hecho relevante*) with the CNMV; (iii) any accrued and unpaid Distributions up to (but excluding) the Write Down Date shall be cancelled by the Bank; and (iv) irrevocably and mandatorily (and without the need for the consent of the Holders) without delay, and by no later than one month from the occurrence of the relevant Trigger Event, reduce the then Outstanding Principal Amount of each Preferred Security by the relevant Write Down Amount.

For further information, see Condition 6.1.

Write Up

Subject to compliance with the prevailing Applicable Banking Regulation, if, following a Write Down, the Group records a positive Consolidated Net Income at any time while the Outstanding Principal Amount of the Preferred Securities is less than their Original Principal Amount, the Bank may, at its full discretion, increase the Outstanding Principal Amount of each Preferred Security by such amount as the Bank may elect, provided that such Write Up shall not:

(i) result in the Outstanding Principal Amount of the Preferred Securities being greater than their Original Principal Amount;

(ii) be operated whilst a Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) result in the Maximum Write Up Amount to be exceeded when taken together with the aggregate of:

  a. any previous Write Up of the Preferred Securities out of the same Consolidated Net Income since the end of the then previous financial year;

  b. the aggregate amount of any Distribution payments on the Preferred Securities that were paid or calculated (but disregarding any Distributions cancelled) on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount at any time after the end of the then previous financial year;

  c. the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments (as defined in the Conditions) to be written-up out of the same Consolidated Net Income concurrently (or substantially

concurrently) with the Write Up and (if applicable) any previous increase in principal amount of such Loss Absorbing Written Down Instruments out of the same Consolidated Net Income since the end of the then previous financial year; and

d. the aggregate amount of any distribution payments on such Loss Absorbing Written Down Instruments that were paid or calculated (but disregarding any distributions cancelled) on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Written Down Instruments were issued at any time after the end of the then previous financial year.

A Write Up will also not be effected in circumstances in which it would cause any Maximum Distributable Amount (if any) to be exceeded.

For further information, see Condition 6.2.

Purchases

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

Meetings of Holders

The Conditions contain provisions for convening meetings of Holders to consider matters affecting their interests generally. The provisions governing the manner in which Holders may attend and vote at a meeting of the holders of Preferred Securities must be notified to Holders in accordance with Condition 13 and/or at the time of service of any notice convening a meeting.

For further information, see Condition 11.

Withholding Tax and Additional Amounts

All payments of Distributions and other amounts payable (excluding, for the avoidance of doubt, repayment of principal) in respect of the Preferred Securities by or on behalf of the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority of agency therein or thereof having power to tax in respect of payments of Distributions (but not any Outstanding Principal Amount or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distribution had no such withholding or deduction been required, subject to the exceptions provided in Condition 12.

For further information, see Condition 12.

Form	The Preferred Securities have been issued in uncertificated, dematerialised book-entry form in euro in an aggregate nominal amount of €350,000,000 and Original Principal Amount of €200,000 each.
Registration, clearing and settlement	The Preferred Securities have been registered with Iberclear as managing entity of the Spanish Central Registry (both, as defined in the Conditions). Holders of a beneficial interest in the Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with Iberclear.
Title and transfer	Title to the Preferred Securities is 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 having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Preferred Securities recorded therein. For these purposes, the "Holder" means the person in whose name such Preferred Securities 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 (or, in the case of a joint holding, the first named thereof) and Holder shall be construed accordingly. The Preferred Securities are issued without any restrictions on their transferability. Consequently, the Preferred Securities may be transferred and title to the Preferred Securities 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 Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant Preferred Securities 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 Holder.
Rating	The Preferred Securities are expected to be rated B- by S&P and B by Fitch.
Listing and admission to trading	Application has been made for the Preferred Securities to be admitted to trading on AIAF. The Preferred Securities may also be admitted to trading on any other secondary market as may be agreed by the Issuer.
Governing Law	The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the U.S. Securities Act apply. The Preferred Securities have not and will not be eligible for sale in the United States under Rule 144A of the U.S. Securities Act.

RISK FACTORS

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

In purchasing the Preferred Securities, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Preferred Securities. There is a wide range of factors which individually or together could result in the Bank becoming unable to make all payments due in respect of the Preferred Securities. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. The Bank has identified in this Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Preferred Securities.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks affecting the Group's financial activity

The Group's business could be significantly affected by a failure to monitor concentration and spread of risks

The principal banking business conducted by the Group consists of retail banking including, amongst other things, retail financial services such as taking customer deposits and customer lending, as well as the provision of insurance services, securities transactions and foreign exchange transactions. This part of the Group's business, in addition to the Group's investments to expand and develop it, are subject to certain inherent risks in the financial sector which in turn depend on a series of macroeconomic variables beyond the Issuer's control.

The risks arising from the Group's business in this respect are typically classified as: (i) credit risk (which includes sovereign risk, counterparty risk due to treasury positions and risk associated with the investment portfolio), (ii) market risk, (iii) interest rate risk in the banking book, (iv) actuarial risk, (v) eligible own funds risk, (vi) funding and liquidity risk, (vii) legal/regulatory risk, (viii) conduct and compliance risk, (ix) technological risk, (x) operating processes and external events risk, (xi) reliability of financial reporting risk and (xii) reputational risk.

Although the Group monitors its risk concentration by geographic area and by business activity, a failure to monitor and adequately remediate any significant imbalances in the spread of the Group's risk concentration could adversely affect the Group's operations in an affected particular geographical region or business sector, or both.

Credit Risk

The Group is exposed to the creditworthiness of its customers and counterparties. Credit risk can be defined as possible losses which may be generated by a potential default in whole or in part of obligations by a counterparty or debtor (including, but not limited to, the insolvency of a counterparty or debtor). Credit risk is the most significant risk item on the Group's balance sheet and, primarily, such risks are of concern in respect of the Group's business activities in the banking, insurance, treasury and investee portfolio sectors.

Payment defaults by clients and other counterparties may arise from events and circumstances that are unforeseeable or difficult to predict or detect. Market turmoil and economic weakness, especially in Spain, could have a material adverse effect on the liquidity, business and financial conditions of the Group's clients, which could in turn impair its loan portfolio. Adverse changes in the credit quality of the Group's borrowers

and counterparties could affect the recoverability and value of the Group's assets and require an increase in provisions for bad and doubtful debts and other provisions. In particular, the Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. These liquidity concerns have had, and may continue to have, an unsettling effect on inter-institutional financial transactions in general. Many of the routine transactions the Group enters into expose it to significant credit risk in the event of default by one of the Group's significant counterparties. Collateral and security provided to the Group may be insufficient to cover the exposure or the obligations of others to the Group. Accordingly, any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

A weakening in customers' and counterparties creditworthiness' could impact the Group's capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its risk-weighted assets ("**RWAs**"), in accordance with 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**"), and the regulation governing capital requirements according to Regulation (EU) 575/2013, of 26 June, on prudential requirements for credit institutions and investment firms (the "**CRR**"). The RWAs consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of its assets, which include its lending portfolio. If the creditworthiness of a customer or a counterparty declines, the Group would lower their rating, which would presumably result in an increase in its RWAs, which potentially could deteriorate the Group's capital adequacy ratios and limit its lending or investments in other operations. Furthermore, the creditworthiness of a customer or a counterparty resulting in a default would have an impact in the expected losses of the Group and cause an increase in its relevant provisions.

The Group has been continuously reducing its non-performing assets ("**NPA**") within the last few years. As of 31 December 2017, the Group registered €4,175,534 thousand of NPAs (€4,834,148 thousand as of 31 December 2016). This reduction in the Group's NPAs by €658,614 thousand represented a 13.62 per cent. decrease in this period, which involved a reduction of 148 basis points in the NPA ratio in the same period (from 13.42 per cent. as of 31 December 2016 to 11.94 per cent. as of 31 December 2017). NPA and NPA ratio are alternative performance measures ("**APMs**"), the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*".

Sovereign Risk

As a Spanish financial group with a nationwide footprint and almost all of the Group's gross operating income derived from Spain, any decline in Spain's credit ratings could adversely affect the value of certain securities held by the Group in its various portfolios and could also adversely impact the extent to which the Group can use Spanish government bonds it holds as collateral for European Central Bank (the "**ECB**") refinancing and, indirectly, the extent to which other securities held could be used for such purpose, should it choose to do so. Likewise, any permanent reduction in the value of Spanish government bonds would adversely affect the Group's ability to access liquidity, raise capital and meet minimum regulatory capital requirements. As such, a downgrade or series of downgrades in the sovereign rating of Spain and any resulting reduction in the value of Spanish government bonds may have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, any downgrades of Spain's ratings may increase the risk of a downgrade of the Bank's credit ratings by the rating agencies.

As of 31 December 2017, the carrying value of exposure of the Group to sovereign debt amounted to €8,918 million, including €8,514 million of "available-for-sale assets", €397 million of "loans and receivables" and

€0.3 million of "financial assets held for trading", with Spain accounting for 89.78 per cent. of this exposure. Of the total €8,918 million, €4,460 million come from the insurance company.

Besides Spain, the other country where the Group has investment securities exposure is Italy, with investments of €768 million as of 31 December 2017.

Market Risk

The Group is exposed to market risk as a consequence of its trading activities in financial markets and through the asset and liability management of its overall financial position, including the Group's trading portfolio and other equity investments. Therefore, the Group is exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices. The performance of financial markets may cause changes in the value of the Group's investment, available for sale and trading portfolios. In some of the Group's business, protracted adverse market movements, particularly asset price decline, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if the Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the Group for which there are less liquid markets. Further, the value of certain financial instruments (such as derivatives not traded on stock exchanges or other public trading markets) are recorded at fair value, which is determined by using financial models other than publicly quoted prices that incorporates assumptions, judgements and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for the Group in the case of any asset devaluations. Furthermore, monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group does not anticipate.

Any of these factors could require the Group to recognise further write-downs or realise impairment charges, which may have a material adverse effect on the Group's business, regulatory position, financial condition and results of operations.

The volatility of the world of the equity markets due to recent economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility such as that experienced recently may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations could become a permanent impairment which would be subject to write-offs against the Group's results and cause volatility in capital ratios, which in turn may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group uses a number of qualitative tools, metrics and models which may fail to predict future risk exposures and, to the extent they do, such predictions may be inaccurate. If the Group were to suffer substantial losses due to any such market volatility, it would adversely affect the Group's business, financial condition and results of operations.

Actuarial Risk

Actuarial risk is associated with the insurance business within the Group's existing business lines and types of insurance. Actuarial risk reflects the risk arising from the execution of life and other insurance contracts, considering events covered and the processes used in the conduct of business, and distinguishing mortality, longevity, disability and morbidity risk. Management of this risk depends on actuarial management policies relating to subscription, pricing and accident rates.

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

The establishment of this new solvency framework started with the adoption of the European Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance of 25 November 2009,

as amended by Directive 2013/58/EU of 11 December and by Directive 2014/51/EU of 16 April (the "**Solvency II Directive**").

The Solvency II Directive has been implemented in Spain through Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance undertakings and Royal Decree 1060/2015, of 2 December on the regulation, supervision and solvency of insurance and reinsurance undertakings.

The insurance business has a significant role within the Group. The changes introduced by this regulation may have an impact on the capital and liquidity requirements of the insurance business of the Group. Given the recent entry into force of the Solvency II regime and how regulators (including the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*)) will interpret it, it is difficult to calculate its precise impact of such regime on the Group. The implementation of the new regulation by the Group might affect how the Group performs its insurance business activities and also have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group's business could be affected if its capital is not effectively managed

Effective management of the Group's capital position is important to its ability to operate its business and to pursue its business strategy. In response to the 2008 financial crisis, a number of changes to the regulatory capital framework have been adopted or are being considered. For example, the CRR, the CRD IV Directive and any CRD IV Implementing Measures (as defined in the Conditions and any or any combination of the CRD IV Directive, the CRR and any CRD IV Implementing Measures being "**CRD IV**") through which the EU is implementing the Basel III capital reforms.

As these and other changes are implemented or future changes are considered or adopted which may limit the Group's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms, the Group may experience a material adverse effect on its financial condition and regulatory capital position.

Debt and equity investors, analysts and other market professionals may also require higher capital buffers than those required under current or proposed future regulations due to, among other things, the continued general uncertainty involving the financial services industry and the uncertain global economic conditions. Any such market perception, or any concern regarding compliance with future capital adequacy requirements, could increase the Group's borrowing costs, limit its access to capital markets or result in a downgrade in the credit ratings of the Bank, which could have a material adverse effect on its business, financial condition and results of operations.

Credit, market and liquidity risks may have an adverse effect on the Bank's credit ratings and the Bank's and/or the Group's cost of funds. Any reduction in the Bank's credit rating could increase the Bank's and/or the Group's cost of funding and adversely affect the Group's interest margins

The Bank is rated by various credit rating agencies (see "*Additional Information—Credit ratings assigned to an issuer or its debt securities at the request or with the co-operation of the Issuer in the rating process*"). The credit ratings of the Bank are an assessment by rating agencies of its ability to pay its obligations when due. Credit ratings affect the cost and other terms upon which the Bank and/or the Group is able to obtain funding. Rating agencies regularly evaluate the Group and the ratings of the Bank's long-term debt are based on a number of factors, including the Bank's financial strength as well as conditions affecting the financial services industry generally.

Credit ratings are subject to the evaluation of the financial strength of a company in accordance with the methodology applied by rating agencies. In addition, since the Issuer is a Spanish company with substantial operations in Spain, its rating is affected by the sovereign rating of Spain, which is the maximum level achievable by the Issuer. Any decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a decline in the Issuer's credit ratings.

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

As of the date of this Prospectus, the Issuer's rating and outlook are as follows:

Agency	Long term	Short term	Outlook
Moody's	Ba3[(1)]	NP	Stable
S&P	BB+	B	Positive
Fitch	BB+	B	Positive

Note:

(1) Long term deposit rating

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain their current ratings or outlooks. The Bank's failure to maintain favourable ratings and outlooks could increase the cost of its funding and adversely affect the Group's interest margins and results of operations.

The Group has a continuous demand for liquidity to fund its business activities. The Group may suffer during periods of market-wide or firm-specific liquidity constraints, and liquidity may not be available to it even if its underlying business remains strong, or it may be unable to access the debt market

Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to timely access funding necessary to cover the Group's obligations to customers as they become due, to meet the maturity of the Group's liabilities and to satisfy capital requirements. It includes both the risk of unexpected increases in the cost of funding and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with the Group's assets.

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be affected.

The Group's main source of liquidity and funding is its customer deposit base, as well as on-going access to wholesale lending markets, including interbank deposits, mortgage and public sector covered bonds and short-term commercial paper.

In addition, the Group may be unable to secure additional funding in the international capital markets if conditions in these markets, or its credit ratings, were to deteriorate. In this regard, it should be noted that the Issuer is not a publicly-traded entity and therefore has limited access to, and may be unable to obtain financing from, public capital markets.

The Group's financial position could be adversely affected if access to liquidity and funding is limited or becomes more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, such as the closure of financial markets and uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend could be affected through reduced access to liquidity (including government and central bank facilities). In such extreme circumstances, the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. These factors may have a material adverse effect on the Group's regulatory position, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

Additionally, corporate and institutional counterparties may seek to reduce aggregate credit exposures to the Group (or to all banks), which could increase the Group's cost of funding and restrict its access to liquidity. The funding structure employed by the Group may also prove to be inefficient, thus giving rise to a level of funding cost where the cumulative costs are not sustainable over the longer term. The funding needs of the Group may increase and such increases may be material to the Group's business, financial condition and results of operation.

As regards market liquidity, the effects of the highly liquid nature of the assets held are considered as a cash reserve. Sudden changes in market conditions (interest rates and creditworthiness in particular) can have significant effects on the time to sell, including for high-quality assets, typically represented by government securities. The "dimensional scale" factor plays an important role for the Group, insofar as it is plausible that significant liquidity deficits, and the consequent need to liquidate high-quality assets in large volumes, may change market conditions. In addition to this, the consequences of a possible downgrade of the price of the securities held and on the criteria applied by the counterparties in repos operations could make it difficult to ensure that the securities can be easily liquidated under favourable economic terms. In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). In addition to its day-to-day management, the Issuer must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for the Group to fund its business on favourable terms

One of the Group's major sources of funds are savings and demand deposits. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products.

Furthermore, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. This could reduce its asset management income and have a material adverse effect on its interest margins, as well as material adverse effect on the Group's business, financial condition and results of operations.

In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures, which could have a material adverse effect on its business, financial condition and results of operations.

Since the Group needs to comply with evolving liquidity regulatory requirements, it may need to implement changes in business practices that could affect the profitability of its business activities

The liquidity coverage ratio ("**LCR**") is the short-term indicator which expresses the ratio between the amount of available assets readily monetisable (cash and the readily liquidable securities held by the Group) and the net cash imbalance accumulated over a 30-day liquidity stress period. It is a quantitative liquidity standard developed by the Basel Committee on Banking Supervision ("**BCBS**") and provided for in CRR to ensure that those banking organisations which this standard is to apply to (including the Group) have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and since January 2015 has been progressively phased-in. Since 1 January 2018, the banks to which this standard applies (including the Group) must comply with 100 per cent. of the applicable LCR requirement. The LCR of the Group (excluding Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.) was 281.15 per cent. as of 31 December 2017.

The BCBS's net stable funding ratio ("**NSFR**") is the 12-month structural liquidity indicator which corresponds to the ratio between the available amount of stable funding and the statutory amount of stable funding. It has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplated in the Basel III *phase-in* arrangements document that the NSFR, including any revisions, would be implemented by member countries as a minimum standard by 1 January 2018, with no phase-in scheduled. On 23 November 2016, the European Commission published, among the Proposals (as defined below), a proposal for a European Directive amending CRR, where it proposed to implement the BCBS standard on NSFR introducing some adjustments. The NSFR ratio of the Group (excluding Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.) was 124.42 per cent. as of 31 December 2017.

Both the LCR and NSFR are used by Ibercaja to assess the liquidity profile of the Group.

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

The Group's access to liquidity could be damaged by the inability of Ibercaja and/or the Group companies to benefit from the system liquidity support

Due to the financial market crisis, followed by instability, the reduced liquidity available to operators in the sector, the increase in risk premium and the higher capital requirements imposed by the supervisory authorities, also following the results of the comprehensive assessment, there has been a widespread need to guarantee higher level of capitalisation and liquidity for banking institutions. This situation has meant that government authorities and national central banks have had to take action to support the credit system (in some cases by directly acquiring banks' share capital), and has caused some of the biggest banks in Europe and in the world to turn to central institutions in order to meet their short-term liquidity needs. These forms of financing have

been made technically possible where supported by the provision of securities in guarantee considered suitable by the various central institutions. In this context, the ECB has implemented important interventions in monetary policy, both through the conventional channel of managing interest rates, and through unconventional channels, such as the provision of fixed rate liquidity with full allotment, the expansion of the list of assets that can be allocated as a guarantee, longer-term refinancing programmes such as the "Targeted Longer-Term Refinancing Operations" (TLTRO) introduced in 2014 (the "**TLTRO I**") and in 2016 (the "**TLTRO II**" and together with the TLTRO I, the "**TLTRO Financing**"), and purchases on the debt securities market (*i.e.* the so-called outright monetary transactions launched in 2012 and quantitative easing announced in 2015). These interventions contributed to reducing the perception of risk towards the banking system, mitigating the size of the funding liquidity risk and also contributed to reducing speculative pressures on the debt market, specifically with regard to so-called peripheral countries.

Any changes to the policies and requirements for accessing funding from the ECB, including any changes to the criteria for identifying the asset types admitted as collateral and/or their relative valuations, could have a material adverse effect on the Group's business, financial condition and results of operations.

As of 31 December 2017, the Group's debt with the ECB through the TLTRO2 amounted to a total of €3,372 million with a timetable of maturity in 2020. In addition, as of 31 December 2017, the Group had liquid assets amounting to €10,328,384 thousand and an available liquidity position of €17,016,570 thousand. Liquid assets and available liquidity position are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*". It is not possible to predict the duration and the amounts with which these liquidity support operations can be repeated in the future, with the result that it is not possible to rule out a reduction or even the cancellation of this support. This would result in the need for banks to seek alternative sources of borrowing, without ruling out the difficulties of obtaining such alternative funding as well as the risk that the related costs could be higher. Such a situation could therefore have a material adverse effect on the Group's business, financial condition and results of operations. For the sake of completeness, it should also be noted that in spite of the positive impacts of these operations to support the liquidity in the macroeconomic context, there is the risk that an expansionary monetary policy (including specifically, quantitative easing) may have an effect on keeping interest rates, currently already negative for short- and medium-term due dates, at minimum levels for all major due dates, which could have a material adverse effect on the Group's business, financial condition and results of operations.

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

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties or borrowers are inherent in a wide range of the Group's businesses.

Continued market turmoil and economic recession, especially in Spain, could materially and adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn increase the Group's own non-performing loan ("**NPL**") ratios, devalue the Group's loan and other financial assets and result in decreased demand for borrowings in general. In the context of the uneven global recovery from the recent market turmoil and economic recession, and the possibility of continued economic contraction in continental Europe combined with continued high unemployment and low consumer spending, the value of assets collateralising the Group's secured loans, including homes and other real estate assets, could decline significantly, possibly resulting in the impairment of the value of the Group's loan assets. In addition, the Group's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Group's fee and commission income.

Any of the conditions described above could have a material adverse effect on the Group's business, financial condition and results of operations.

Changes in interest rates may negatively affect the Group's business

The Group's results of operations depend upon the level of its net interest income, which is the difference between interest income from loans and other interest-earning assets and interest expense paid to its depositors and other creditors on interest-bearing liabilities.

Interest rates are highly sensitive to many factors beyond the Issuer's control, including fiscal and monetary policies of governments and central banks and regulation of the financial sectors in the markets in which it operates, as well as domestic and international economic and political conditions and other factors.

Changes in market interest rates may affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and subsequently affect the Group's results of operations. An increase in interest rates, for instance, could cause the Group's interest expense on deposits to increase more significantly and quickly than its interest income from loans, resulting in a reduction in its net interest income as often its liabilities will re-price more quickly than its assets. Further, an increase in interest rates could result in a reduction in the demand for loans and the Group's ability to originate loans, and also contribute to an increase in credit default rates among the Group's customers. Conversely, a decrease in the general level of interest rates could adversely affect the Group through, among other things, increased pre-payments on its loan and mortgage portfolio, lower net interest income from deposits, reduced demand for deposits and increased competition for deposits and loans to clients. Fluctuations in interest rates may therefore have a material adverse effect on the Group's business, financial condition and results of operations.

Operational risk is inherent in the Group's business

Operational risk includes the risk of loss arising from inadequate or failed internal processes, personnel and internal systems or from unforeseen external events, including legal risk. The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately and require it to record and process a large number of transactions and handle large amounts of money accurately on a daily basis. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, the failure of due application of necessary compliance measures or from external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented, as well as data processing risk, such as programming errors, systems failure and application design errors.

In addition, any persons that circumvent the security measures could wrongfully use the Group's confidential information or that of its clients, which could expose it to a risk of loss, regulatory consequences or litigation and could negatively impact its reputation and brand name.

The banking business involves the routine handling of large amounts of money, creating the risk of theft, fraud or deception carried out by clients, third-party agents, employees and managers. The employees of the Group may also commit errors that could subject it to financial claims for negligence and otherwise, as well as regulatory actions.

Substantial losses incurred by the Group's customers as a result of any security breaches, errors, omissions, malfunctions, system failures or disaster could subject it to claims from clients for recovery of such losses. These claims, together with the resulting damage to the Group's reputation, could have a material adverse effect on its business, financial condition and results of operation.

There can be no assurance that the Group will not suffer material losses from operational risk in the future.

The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel

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

Portions of the Group's loan portfolio are subject to risks relating to force majeure and any such event could materially adversely affect its operating results

The Group's financial and operating performance may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of its loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of its loan portfolio and could have an adverse impact on the economy of the affected region.

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

Due to the nature of the Group's operations and the nature of the risks that it faces, there can be no assurance that the insurance coverage it maintains is adequate. If the Group were to suffer a significant loss for which it is not insured, its business, financial condition and results of operations could be materially adversely affected.

Risks relating to Macroeconomic Conditions

Unfavourable global economic conditions and, in particular, unfavourable economic conditions in Spain or any deterioration in the European or Spanish financial system, could have a material adverse effect on the Group's business, financial condition and results of operations

Global economic conditions deteriorated significantly between 2007 and 2012 and Spain fell into a deep recession. During the financial crisis, many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced significant difficulties. Around the world, there have been runs on deposits at several financial institutions, numerous financial institutions have had to seek additional capital, including obtaining assistance from governments, and many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions). Over this same period, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. The crisis in worldwide financial and credit markets led to a global economic slowdown, with many economies around the world showing significant signs of weakness or slow growth.

From 2014 the Spanish economy has had a good performance and in the last three years the current account imbalances have been positive: Spain has experienced GDP growths of 3.4 per cent. in 2015, 3.3 per cent. in 2016 and 3.1 per cent. in 2017 (Source: *National Statistics Institute of Spain, Press Notes, 29 January 2016, 30 January 2017 and 30 January 2018*). Recently, the International Monetary Fund has reviewed the expected growth of the Spanish economy and has estimated an increase of its GDP by 3.1 per cent. in 2017 and projected an increase of its GDP by 2.4 per cent. in 2018 and 2.1 per cent. in 2019 (Source: *International Monetary Fund, World Economic Outlook, January 2018*), while the Bank of Spain (*Banco de España*) expects a GDP growth rate of 3.1 per cent. in 2017 and 2.4 per cent. in 2018 (Source: *Bank of Spain, Macroeconomic Projections,*

December 2017). Higher employment and easier financing conditions should support domestic demand; growth and the recovery of the euro area is also expected to continue to support export demand. The Spanish economy has made progress in reducing its economic and financial imbalances and implementing important structural reforms. Current account surpluses, the adjustment in the real estate sector and advanced deleveraging of the private sector have contributed to improving the Spanish economy. Nevertheless, public fiscal accounts are adjusting slowly: the deficit stood at 2.06 per cent. as of November 2017 (Source: *Ministry of Finance and the Civil Service, Press Release, 30 January 2018*), below the target of 3.1 per cent. for 2017 and it is expected to increase to 2.3 per cent. in 2018 (above the target of 2.2 per cent. for 2018) (Source: *Ministry of Finance and the Civil Service, 2018 Budgetary Plan, 16 October 2017*). High public deficits have pushed public debt to 98.7 per cent. (Source: *Bank of Spain, Quarterly Report on the Spanish Economy, Fourth Quarter 2017*) of GDP in the third quarter of 2017, but despite the adverse dynamics, the level of public debt in Spain is not far from the euro area average (88.9 per cent. of GDP in 2016 (Source: *Eurostat, Government finance statistics, October 2018)*). The Spanish banking system is accelerating the pace of new lending as a result of increased demand and improved financial conditions. After the clean-up and restructuring efforts of the past years, the main challenge now is to achieve sustainable profitability levels through a combination of higher revenues from increased business volumes, lower funding costs, additional capacity adjustments and a lower cost-of-risk.

Regarding the economic growth for the Eurozone, although as a whole it has been positive since the second quarter of 2013, growing 1.5 per cent. in 2016 (Source: *Eurostat, News Release 160/2017, Provision of deficit and debt data for 2016 – Second Notification, 23 October 2017*), the recovery remains fragile and the possibility of future deterioration of the European economy as a whole or for the individual countries remains a risk.

The scenario for the European and the Spanish economies could be affected by several risks, both external and internal. External risks include a greater slowdown in the emerging economies, another episode of financial volatility and several political and geopolitical risks. In addition, the growing level of global debt makes global growth more sensitive to unforeseen events. Internal risks in the euro area include the ongoing negotiation process regarding the exit by the United Kingdom ("**UK**") from the EU (Brexit), which could have adverse effects on the UK and the rest of EU economies through real and financial channels. While the direct exposure of the European economy to the UK through these channels appears to be relatively small, the impact could be larger due to its impact on consumer and business confidence.

In addition, while the probability of country defaults has decreased since 2012, the possibility of a European sovereign default still exists. Moreover, if one or more EU member states were to exit from the European Monetary Union (EMU), this could cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency. These risks could materially affect the European and global economy, and substantially disrupt capital, interbank, banking and other markets, among other effects. Moreover, tensions among EU member states, and growing Euro-scepticism in certain EU countries, intensified by the refugee crisis, could pose additional difficulties in the EU's ability to react to any of those economic risks. The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports, so that an interruption in the recovery of the Eurozone might have an adverse effect on Spanish economic growth.

An internal risk to the Spanish economy arises from political fragmentation and uncertainties arising from the political situation within Spain, which may slow the pace of reform and fiscal adjustments or result in changes to laws, regulations and policies or impact economic growth in Spain which could have a material adverse effect on the Group's business, financial condition and results of operations. This applies not only to specific Spanish regions such as Catalonia (where considerable uncertainty exists regarding the outcome of political tensions between Spain's central government and the regional government of Catalonia that could start to weigh on business confidence and investment, and could weaken Spain's current good growth prospects) but also to the central Spanish government where, after the June 2016 Spanish general election result, further instability cannot

be ruled out during the legislature due to the forming of a minority government. As a result of such uncertainties arising from the political situation, the Bank of Spain estimates that if the tensions increase more and last during 2018, the cumulative impact on GDP growth could be of about 2.5 percentage points by 2019 (Source: *Bank of Spain, Financial Stability Report, November 2017*). Furthermore, there is consensus that, despite the expected improvement in the labour market, the unemployment rate will remain high in the months to come in Spain.

While the economic recovery is ongoing in Spain and the EU, several risks, both external and internal, could materialise and have an adverse impact on their economic prospects. In that case, the economic situation could deteriorate and adversely affect the Group's business, financial condition and results of operations.

The Group's exposure to the Spanish real estate market makes it more vulnerable to adverse developments in the Spanish market

The Group is exposed to the Spanish real estate market, and the deterioration of Spanish real estate prices could have a material adverse effect on the Group's business, financial condition and results of operations. Spanish real estate assets secure many of the Group's outstanding loans, and the Group holds a significant amount of Spanish real estate assets on its balance sheet, including real estate received in lieu of payment for certain underlying loans. Furthermore, the Group has restructured and extended the maturity of certain of the loans it has made relating to real estate, and the capacity of such borrowers to repay such restructured loans may be materially adversely affected by declining real estate prices.

Prior to 2008, demand for housing and mortgage financing in Spain increased significantly driven by, among other things, economic growth and historically low interest rates in the Eurozone. During late 2007, however, the housing market began to adjust in Spain as a result of excess supply and higher interest rates. From 2008 until 2014, as economic growth came to a halt in Spain, housing demand and prices declined leading to a persistent oversupply, while mortgage defaults increased.

Since 2015 the Spanish real estate market has showed signs of recovery as housing prices are stabilising and even increasing after deflating for six years and sales are increasing as well owing to pent-up demand, the improvement in employment rates and easier credit conditions. Expected housing demand recovery will push sales up, in a context of record low new completions, which will allow for a gradual reduction of excess supply and increasing real estate prices. However, the geographical distribution of the current housing stock will drive distinct price dynamics and construction activity among different regions, leading to an unequal recovery. Despite the upturn in the Spanish real estate market, its recovery is at its early stages. As a consequence, deterioration of economic conditions, the interruption of such recovery or even, a new downturn in the Spanish real estate market could have a material adverse impact on the Group's mortgage default rates, which in turn could have a material adverse effect on its business, financial condition and results of operations.

The Group has lending exposure to risks in the property development and construction sector, with loans for property construction and/or development amounting to approximately €1,695 million (5.07 per cent. of the Group's total gross loans and receivables to customers) as of 31 December 2017 and €2,023 million (5.90 per cent. of the Group's total gross loans and receivables to customers) as of 31 December 2016. NPL ratio on loans to real-estate developers as of 31 December 2017 was 45.75 per cent. (52.66 per cent. as of 31 December 2016) and provisions for this exposure amounted to approximately €405 million (€510 million as of 31 December 2016), 52.27 per cent. and 47.88 per cent. of coverage of real estate development risk as of 31 December 2017 and 31 December 2016, respectively.

Of the €1,695 million in loans for property construction and/or development, €1,603 million correspond to loans secured by mortgages, while €92 million correspond to unsecured loans.

Additionally, as of 31 December 2017, the Group portfolio of foreclosed real estate assets stood at €1,566 million (€1,725 million as of 31 December 2016). Foreclosed assets coverage ratio increased during 2017 by

442 points up to 56.63 per cent. as of 31 December 2017. Foreclosed land coverage ratio reached 65.37 per cent. as of 31 December 2017. Foreclosed assets coverage ratio and foreclosed land coverage ratio are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*".

Declines in property prices decrease the value of the real estate collateral securing the Group's mortgage loans and adversely affects the credit quality of property developers to whom the Group has lent. Therefore, any defaults by borrowers in the property construction or development sector, as well as the evolution of the Spanish real estate market, could have a material adverse effect on the Group's business, financial condition and results of operations.

Increased competition in the markets where the Group operates may adversely affect the Group's growth prospects and operations

The markets in which the Group operates are highly competitive. Financial sector reforms in these markets (mainly in Spain) have increased competition among both local and foreign financial institutions, and it believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which it must now compete, some of which have received public capital. This trend is expected to continue as the Bank of Spain continues to impose measures aimed at restructuring the Spanish financial sector, including requirements that smaller, non-viable regional banks consolidate into larger, more solvent and competitive entities, and reducing overcapacity.

The Group also faces competition from non-bank competitors, such as department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies, and public debt. In addition, the Group faces competition from shadow banking entities that operate outside the regulated banking system. Furthermore, "crowdfunding" and other social media developments in finance are expected to become more popular as technology further continues to connect society. The Group cannot be certain that this competition will not adversely affect its competitive position.

If the Group is unable to provide competitive product and service offerings, it may fail to attract new customers and/or retain existing customers, experience decreases in its interest, fee and commission income, and/or lose market share, the occurrence of any of which could have a material adverse effect on its business, financial condition and results of operations.

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

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

Legal and regulatory risks

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

The financial services industry is among the most highly regulated industries in the world. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crisis. The Group's operations are subject to ongoing regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the EU and the other markets in which it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector which is expected to continue for the foreseeable future. This creates significant uncertainty for the Bank and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures. As a result, the Group may be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability. In addition, the new institutional structure in Europe for supervision, with the creation of the single supervisory mechanism (the "**SSM**"), and for resolution, with the new single resolution mechanism ("**SRM**"), could lead to additional changes in the near future. The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still ongoing. In addition, since some of these laws and regulations have been recently adopted, the manner in which they are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Group's business, financial condition and results of operations. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been steadily increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as the Bank.

The Group is subject to the supervision and/or regulation of the Bank of Spain, the ECB, the Single Resolution Board (the "**SRB**"), the CNMV and the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*) which are the main regulators of the operations of the Group. The operations of the Group outside of Spain are subject to direct oversight by the local regulators in those jurisdictions. In addition, many of the operations of the Group are dependent upon licenses issued by financial authorities.

Moreover, the regulators of the Group, as part of their supervisory function, periodically review the Group's allowances for loan losses. Those regulators may require the Group to increase such allowances, to recognise further losses or to increase the regulatory risk-weighting of assets, or may increase its combined buffer requirement or increase "Pillar 2" capital requirements. Any such measures, as required by these regulatory agencies, whose views may differ from those of the management of the Group, could have an adverse effect on its earnings and financial condition, including on the Group's Common Equity Tier 1 ("**CET1**") ratio, on its ability to pay distributions and on the likelihood of a Trigger Event occurring.

The regulations which most significantly affect the Group, or which could most significantly affect the Group in the future, include regulations relating to capital and provisions requirements, which have become increasingly strict in the past few years and steps taken towards achieving a fiscal and banking union in the EU. These risks are discussed in further detail below. In addition, the Group is subject to substantial regulation relating to other matters such as liquidity. The Issuer considers that future liquidity standards could require maintaining a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect the Group's net interest margin. In addition, the Group is also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

Any required changes to the Group's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit the Group's ability to pursue business opportunities in which the Group might otherwise consider engaging, affect the value of assets that the Group holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional costs on the Group or otherwise adversely affect the Group's businesses.

In addition, the accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the individual and consolidated financial statements. These changes can materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. Specifically, the Group's results may be adversely affected by the proposed changes to the classification and measurement of financial assets arising from IFRS 9 Financial Instruments, which require, among others, the development of an impairment methodology for calculating the expected credit losses on the Group's financial assets and commitments to extend credit, instead of incurred losses. This methodology could imply more volatility in profit and loss when estimating the value of existing exposures arising from macroeconomic variations. The expected negative impact of IFRS 9 in CET 1 fully-loaded ratio will be 53 basis points; however, it is also expected that NPL coverage ratio will increase from 43.1 per cent. up to 49 per cent. approximately and NPA coverage ratio (which include coverage of NPL and foreclosure assets) will increase from 48.2 per cent. to 52 per cent. approximately. NPL coverage ratio and NPA coverage ratio are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*".

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the Group's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation and the Group may face higher compliance costs.

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

The Group is and in the future may be involved in various claims, disputes, legal proceedings and governmental investigations in jurisdictions where the Group is active. These types of claims and proceedings may expose the Group, as the case may be, to monetary damages, direct or indirect costs or financial loss, civil and criminal penalties, loss of licenses or authorisations, or loss of reputation (reputational risk), as well as the potential regulatory restrictions on the Group's businesses, all of which could have a material adverse effect on the Group's business, financial condition and results of operations.

It is relevant mentioning that there is an ongoing legal procedure to exercise a class action, subject to appeal, regarding the application of interest rate floor clauses on certain mortgages granted by the Group. On 7 April 2016, a ruling was passed in the aforementioned proceedings declaring such interest rate floor clauses,

contained in the general conditions of signed mortgage contracts with customers, null and void due to a lack of transparency, and by which banks must (i) eliminate the abovementioned clauses of the contracts, (ii) cease using them in a non-transparent way, and (iii) reimburse affected consumers for amounts that they overpaid under clauses declared void from the date of publication of the judgment of the Supreme Court on 9 May 2013, together with any interests in accordance with applicable law.

As of the date of this Prospectus, this judgment is not final, as it was appealed by various parties. In its appeal, the consumer association ADICAE (*Asociación de Usuarios de Bancos, Cajas y Seguros*) is requesting that the reimbursement of amounts is not limited to those charged from 9 May 2013 but that it extends in each case to the date when the mortgage was granted. The Public Prosecutor (*Ministerio Fiscal*) opposed this request (unless the European Court of Justice rules otherwise).

On 13 July 2016, the Advocate General of the EU issued its opinion prior to the judgement handed down by the Court of Justice of the European Union ("**CJEU**"), which was favourable to the Spanish Supreme Court's decision to limit repayments to 9 May 2013 (the doctrine applied by Mercantile Court 11). Nevertheless, on 21 December 2016, the judgement handed down by the CJEU did not endorse the opinion issued by the Advocate General, in contrast to the usual procedure, and it upheld full retroactive reimbursement in relation to floor clauses.

As of 31 December 2017, the Group has provisions of €49.38 million for this matter.

Increasingly onerous capital requirements constitute one of the Group's main regulatory challenges

As a Spanish credit institution, the Bank is subject to the CRD IV through which the EU began implementing the Basel III capital reforms with effect from 1 January 2014, with certain requirements in the process of being phased-in during upcoming years. The core regulation regarding the solvency of credit entities is the CRR which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures.

Solvency requirements are applied to Ibercaja on a consolidated basis.

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

The implementation of the CRD IV Directive in Spain has largely taken place through Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to EU regulations on the subject of supervision and solvency of financial entities (the "**RD-L 14/2013**"), Law 10/2014, of 26 June, on organisation, supervision and solvency of credit entities (the "**Law 10/2014**"), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 (the "**Royal Decree 84/2015**"), and Bank of Spain Circulars 2/2014, of 31 January, and 2/2016, of 2 February, to credit entities, on supervision and solvency, which completes the adaptation of Spanish law to CRR and the CRD IV Directive (the "**Bank of Spain Circular 2/2016**").

Under CRD IV, the Group is required to hold a minimum amount of regulatory capital of 8 per cent. of RWAs of which at least 4.5 per cent. must be CET1 capital and at least 6 per cent. must be Tier 1 capital (together, the minimum "Pillar 1" capital requirements).

Moreover, Article 104 of CRD IV Directive, as implemented by Article 68 of Law 10/2014 also contemplates that in addition to the "Pillar 1" capital requirements, the supervisory authorities may require further capital to

cover other risks, including those not considered to be fully captured by the "Pillar 1" minimum "own funds" requirements under CRD IV or to address macro-prudential considerations. This may result in the imposition of further CET1, Tier 1 and total capital requirements on the Group pursuant to this "Pillar 2" framework. Any failure by the Group to maintain its "Pillar 1" minimum regulatory capital ratios and any additional "Pillar 2" capital requirements could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group's results of operations.

Following the introduction of the SSM by means of the 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 is in charge of assessing additional "Pillar 2" capital requirements to be complied with by each of the European banking institutions now subject to the SSM, such as the Issuer and its Group. The ECB is required under the SSM Regulation to carry out, at least on an annual basis, a supervisory review and evaluation process (the "**SREP**") assessments under the CRD IV of the additional "Pillar 2" capital requirements and accordingly requirements may change from year to year. Although the Group currently meets "Pillar 2" capital requirements, there can be no assurance that the Group will be able to comply with any such additional own funds requirements as updated in the future.

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

In addition to the minimum "Pillar 1" and "Pillar 2" capital requirements, credit institutions must comply with the "combined buffer requirement" as set out in the CRD IV Directive. The "combined buffer requirement" has introduced five new capital buffers to be satisfied with additional CET1 capital: (i) the capital conservation buffer of 2.5 per cent. of RWAs; (ii) the global systemically important institutions ("*G-SII*") buffer, of between 1 per cent. and 3.5 per cent. of RWAs; (iii) the institution-specific counter-cyclical capital buffer, which may be as much as 2.5 per cent. of RWAs (or higher pursuant to the Bank of Spain); (iv) the other systemically important institutions ("*O-SII*") buffer, which may be as much as 2 per cent. of RWAs; and (v) the systemic risk buffer to prevent systemic or macro prudential risks, of at least 1 per cent. of RWAs (to be set by the Bank of Spain).

The Bank has not been classified as *G-SII* or as *O-SII* by the Financial Stability Board ("**FSB**") nor by any competent authority so, unless otherwise indicated by the *FSB* or by the Bank of Spain in the future, it is not required to maintain the *G-SII* buffer or the *O-SII* buffer.

In addition, the Bank of Spain agreed on 23 March 2018 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the second quarter of 2018 (percentages will be revised each quarter).

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

As set out in the "*Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions*" published on 16 December 2015 (the "**December 2015 EBA Opinion**"), competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount (as defined below) calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution, and accordingly, the "combined buffer

requirement" is in addition to the minimum Pillar 1 capital requirement and to the additional Pillar 2 capital requirement, and therefore it would be the first layer of capital to be eroded pursuant to the applicable stacking order. The Proposal (as defined below) amending CRR published on 23 November 2016 and the draft guidelines on the revised common procedures and methodologies for the SREP and supervisor stress testing published by the EBA on 31 October 2017 (the "**EBA Draft Guidelines**") also clarify the stacking order of Pillar 1 capital requirements, Pillar 2 capital requirements ("**P2R**") and combined buffer requirements in the same way.

Any failure by the Group to maintain the combined buffer requirements on top of Pillar 1 capital requirements and P2R, may result in the imposition of restrictions or prohibitions on Discretionary Payments (as defined below) by the Issuer, including dividend payments, and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

According to Article 48 of Law 10/2014, Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, those entities failing to meet the "combined buffer requirement" or making a distribution in connection with CET1 capital to an extent that would decrease its CET1 capital to a level where the "combined buffer requirement" is no longer met will be subject to restrictions on (i) distributions relating to CET1 capital, (ii) payments in respect of variable remuneration or discretionary pension revenues and (iii) distributions relating to Additional Tier 1 capital instruments ("**Discretionary Payments**"), until the maximum distributable amount calculated according to CRD IV (*i.e.*, the firm's "distributable profits", calculated in accordance with CRD IV, multiplied by a factor dependent on the extent of the shortfall in CET1 capital) (the "**Maximum Distributable Amount**") has been calculated and communicated to the Bank of Spain and thereafter, any such distributions or payments will be subject to such Maximum Distributable Amount for entities (a) not meeting the "combined buffer requirement" or (b) in relation to which the Bank of Spain has adopted any of the measures set forth in Article 68.2 of Law 10/2014 aimed at strengthening own funds or limiting or prohibiting the distribution of dividends.

As communicated by the EBA on 1 July 2016, in addition to Pillar 1 capital requirements and P2R and combined buffer requirements, the supervisor can also set a Pillar 2 Guidance. Thus, SREP decisions of 2016 onwards differentiate between P2R and "Pillar 2" guidance ("**P2G**"). Banks are expected to meet the P2G, which is set on top of the level of binding capital (Pillar 1 and P2R) requirements and on top of the capital buffer requirements. If a bank does not meet its P2G, this will not result in automatic action of the supervisor and will not be used to determine the Maximum Distributable Amount trigger, but will be used in fine-tuned measures based on the individual situation of the relevant bank. In order to assess the final measures taken, the SSM will assess every case of a bank not meeting its P2G. The P2G is not public. The *EBA Draft Guidelines* also contemplate P2G in the same way.

In December 2017, the Bank received the decisions of the ECB regarding minimum capital requirements for 2018 following the outcomes of the most recent SREP. These decisions require the Group to maintain a phased-in CET1 ratio of 8.125 per cent. of RWAs. and a total capital ratio of 11.625 per cent. of RWAs (8.75 per cent. and 12.25 per cent. of RWAs, respectively, fully loaded) on a consolidated level.

These ratios include the minimum Pillar 1 requirement (CET 1 ratio of 4.50 per cent. of RWAs and 8 per cent. of RWAs of total capital), the Pillar 2 requirement (1.75 per cent. of RWAs) and the capital conservation buffer (1.875 per cent. of RWAs).

As of 31 December 2017, the Group maintains a CET1 ratio phased-in of 11.72 per cent. of RWAs and a total capital ratio of 13.93 per cent. of RWAs (11.04 per cent. and 13.26 per cent. of RWAs, respectively, fully loaded). In addition, the RWAs-total assets ratio was 41.93 per cent. as of 31 December 2017. RWAs-total assets ratio is an APM, the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*".

In addition to CRD IV arrangement which requires maintenance of certain capital buffers before any dividend is paid, the ECB communicated updated recommendations on dividend distribution and remuneration policies to be adopted in 2018 for the financial year 2017. The ECB expects banks to adopt a prudent, forward-looking stance when deciding on their remuneration and dividend distribution policies so that they can fulfil all their capital requirements, including the outcome of the SREP.

See further "*—Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*" and "*—CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount*" below.

In addition to the above, the CRR also includes a requirement for credit institutions to calculate a leverage ratio, report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their leverage ratio in accordance with the methodology laid down in that article. At its meeting of 12 January 2014, the oversight body of the BCBS endorsed the definition of the leverage ratio set forth in the CRD IV. Such definition of the leverage ratio was introduced in the EU via Commission Delegated Regulation 2015/62 in January 2015. On 11 January 2016, the BCBS issued a press release informing the public about the agreement reached by its oversight body, the Group of Governors and Heads of Supervision ("**GHOS**") setting an indicative benchmark consisting of 3 per cent. of leverage exposures, which must be met with Tier 1 capital. The CRR does not currently contain a requirement for institutions to have a capital requirement based on the leverage ratio though the European Commission's Proposals (as defined below) amending the CRR contain a binding 3 per cent. Tier 1 capital leverage ratio requirement. Full implementation of the leverage ratio as a Pillar 1 measure is currently under consultation as part of the Proposals.

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further P2Rs and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms ("**Law 11/2015**"), which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 ("**Royal Decree 1012/2015**") have 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 capital and eligible liabilities in relation to total liabilities and own funds (known as "**MREL**"). 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 the resolution plan and other criteria. From 1 January 2016, the resolution authority for Ibercaja is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. Eligible liabilities will be determined by resolution authorities (including if applicable the SRB) and may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions). The MREL requirement came into force on 1 January 2016 but no formal requirements have been communicated yet by the resolution authority and therefore, the quantum, the requirements to qualify as eligible liabilities and the compliance calendar remain all as open questions.

On 9 November 2015, the *FSB* published its final Total Loss-Absorbing Capacity ("**TLAC**") Principles and Term Sheet, proposing that *G-SII*s maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and

which forms a new standard for *G-SII*s. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of *G-SII*s in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The *FSB* will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each *G-SII* at the greater of (a) 16 per cent. of RWAs as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio exposures as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. Under the *FSB* TLAC standard, capital buffers stack on top of the minimum TLAC requirements.

Although the Bank has not been classified as a *G-SII* by the *FSB*, it cannot be disregarded that TLAC requirements are finally extended to non-*G-SII*s which could create additional minimum capital or other requirements for the Issuer and/or the Group.

On 23 November 2016, the European Commission published among other a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No 806/2014 effective from 1 January 2015 (the "**SRM Regulation**"). Additionally, the European Commission proposed an amending directive to facilitate the creation of a new asset class of "non-preferred" senior debt (the aforementioned proposals, together, the "**Proposals**"). The Proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities, changes to the definitions of Tier 2 and Additional Tier 1 instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. The Proposals also cover a harmonised national insolvency ranking of unsecured debt instruments to facilitate the issuance by credit institutions of such "non-preferred" senior debt. The Proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until all the Proposals are in final form and are finally implemented into the relevant legislation, it is uncertain how the Proposals will affect the Issuer or the Holders.

Notwithstanding, the Proposals regarding the harmonised national insolvency ranking of unsecured debt instruments and the recognition of the "non-preferred" senior debt has been implemented in the EU through the Directive (EU) 2017/2399 amending the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy which was published in the Official Journal of the EU on 27 December 2017. It has to be transposed into national law by the Member States by 29 December 2018, provided that the relevant Member States has not been previously legislated in the sense of such Directive. In Spain, the new class of "non-preferred" senior debt and its insolvency ranking were introduced earlier through the Royal Decree-Law 11/2017.

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

The European Commission's Proposals require the introduction of some adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for *G-SIIs*.

Any failure by an institution to meet the applicable minimum TLAC/MREL Requirements is intended to be treated similarly as a failure to meet minimum regulatory capital requirements, where resolution authorities must ensure that they intervene and place an institution into resolution sufficiently early if it is deemed to be failing or likely to fail and there is no reasonable prospect of recovery and, in particular, could result in the imposition of restrictions on discretionary payments, and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

In addition, on 7 December 2017, the GHOS published the finalisation of the Basel III post-crisis regulatory reform agenda. This review of the regulatory framework covers credit, operational and credit valuation adjustment (CVA) risks, introduces a floor to the consumption of capital by internal ratings-based methods (IRB) and the revision of the calculation of the leverage ratio. The main features of the reform are: (i) a revised standard method for credit risk, which will improve the soundness and sensitivity to risk of the current method; (ii) modifications to the IRB methods for credit risk, including input floors to ensure a minimum level of conservativism in model parameters and limitations to its use for portfolios with low levels of non-compliance; (iii) regarding the CVA risk, and in connexion with the above, the removal of any internally modelled method and the inclusion of a standardised and basic method; (iv) regarding the operations risk, the revision of the standard method, which will replace the current standard methods and the advanced measurement approaches (AMA); (v) the introduction of a leverage ratio buffer for *G-SII*s; and (vi) regarding capital consumption, it establishes a minimum limit on the aggregate results (output floor), which prevents the RWAs of the banks generated by internal models from being lower than the 72.5 per cent. of the RWAs that are calculated with the standard methods of the Basel III framework.

The GHOS have extended the implementation of the revised minimum capital requirements for market risk until January 2022, to coincide with the implementation of the reviews of credit, operational and CVA risks.

There is uncertainty with regards to how and when they will be implemented in the EU.

In light of the above, it should not be disregarded that new and more demanding additional capital requirements may be applied in the future.

Basel III implementation differs across jurisdictions in terms of timing and the applicable rules. The lack of uniformity in implemented rules may lead to an uneven playing field and to competition distortions. In order to address this, the ECB has issued Regulation (EU) No 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions available in Union law ("**Regulation 2016/445**"). There can be no assurance that new additional regulations will not be introduced that could have an impact on capital position.

Finally, there can be no assurance that the implementation of these new capital requirements, standards or recommendations will not adversely affect the Bank's ability to pay Distributions on the Preferred Securities or result in the cancellation of such Distributions (in whole or in part), the Bank's ability to make Discretionary Payments as set out above, or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Group's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Group's return on equity and other financial performance indicators.

Deferred Tax Assets

In addition to introducing new capital requirements, CRD IV Directive provides that deferred tax assets ("**DTAs**") that rely on the future profitability of a financial institution must be deducted from its regulatory capital (specifically its core capital or CET1 capital) for prudential reasons, as there is generally no guarantee that DTAs will retain their value in the event of the financial institution facing difficulties.

This new deduction introduced by CRD IV has a significant impact on Spanish banks due to the particularly restrictive nature of certain aspects of Spanish tax law. For example, in some EU countries when a bank reports

a loss, the tax authorities refund a portion of taxes paid in previous years, but in Spain the bank must earn profits in subsequent years in order for this set-off to take place. Additionally, Spanish tax law does not recognise as tax-deductible certain amounts recorded as costs in the accounts of a bank, unlike the tax legislation of other EU countries.

Due to these differences and the impact of the requirements of CRD IV on DTAs, the Spanish regulator implemented certain amendments to Law 27/2014, of 27 November, on corporate income tax (the "**Corporate Income Tax Law**") through RD-L 14/2013, which also provided for a transitional regime for DTAs generated before 1 January 2014. These amendments enabled certain DTAs to be treated as a direct claim against the Spanish tax authorities if a Spanish bank was unable to reverse the relevant differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This, therefore, allowed a Spanish bank not to deduct such DTAs from its regulatory capital. The transitional regime provided for a period in which only a percentage (which increases yearly) of the applicable DTAs would have to be deducted. This transitional regime was also included in Corporate Income Tax Law.

However, the European Commission initiated a preliminary state aid investigation in relation to the Spanish DTAs regime. Such investigation is now resolved to the extent that the European Commission, the Bank of Spain and the Spanish Ministries of Treasury and Economy agreed a commitment to amend the applicable law in order to reinforce the compatibility of the regime with European Law. In general terms, the amendment passed requires payment of a special tax charge in order for the conversion of the DTAs into a current asset to be enforceable.

The Royal Decree-Law 3/2016 of 2 December 2016 ("**RD-L 3/2016**") has implemented a number of amendments to the Corporate Income Tax Law, in force for tax periods beginning on 1 January 2016. The main amendments introduced therein are the following: (i) limitation on the use of the DTAs treated as a direct claim and carried forward tax losses up to 25 per cent. (provided a certain amount of net operating income); (ii) new limit on the use of the double taxation deduction up to 50 per cent. of the tax liability (*cuota íntegra*), in case the net operating income exceeds €20 million; (iii) the impairment of the value of stakes held which were considered deductible for tax purposes in tax periods prior to 1 January 2013 should have to be recaptured on the following five tax periods at least on a proportionate basis; and (iv) as from 2017, losses generated upon the transfer of shares, provided it complies with the relevant requirements to apply the Spanish participation exemption on capital gains, will not be considered as deductible for tax purposes. It applies to tax periods beginning in the year 2017.

In any case, there could be a risk that the Corporate Income Tax Law will be modified in the future and any changes to the DTAs regime could have a material adverse effect on the Group's business, financial condition and results of operations.

Steps taken towards achieving an EU fiscal and banking union

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

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

The SSM (comprised by both the ECB and the national competent authorities) will help to make the banking sector more transparent, unified and safe. The SSM Regulation was passed in October 2013 with effect from 3 November 2013. On 4 November 2014, the ECB assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the 120 largest European banks (including the Issuer). In preparation for

this step, between November 2013 and October 2014 the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. On 26 October 2014, the ECB announced the results of the comprehensive assessment.

On 24 February 2016, the EBA announced new methodology and macroeconomic scenarios for the 2016 EU-wide stress test which covered over 70 per cent. of the EU banking sector (51 banks) and assessed EU banks' ability to meet relevant supervisory capital ratios during an adverse economic shock. Similar to the 2014 stress test, the 2016 EU-wide stress test was primarily focused on the assessment of the impact of risk drivers on the solvency of banks. On 29 July 2016, the EBA published the results of the stress test.

On 21 December 2016, the EBA published its decision to carry out its next EU-wide stress test in 2018 and to perform its regular annual transparency exercise in 2017. The information related to the transparency exercise of 2017 was published on 24 November 2017. The Issuer cannot provide assurance that it will not be subject to recommendations from future EU-wide stress test or similar regulatory exercises which could have an impact on its current asset valuation policies, the classification of some of its exposures or cause other relevant effects.

The SSM has represented a significant change in the approach to bank supervision at a European and global level, even if it has not resulted nor is it expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, among them the Bank, and indirect supervision of around 3,500 financial institutions. The SSM is one of the largest authorities in the world in terms of assets under supervision. The SSM is working to establish a new supervisory culture importing the best practices from the 19 national supervisory authorities that are part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the approval of Regulation (EU) No 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and the national competent authorities and with national designated authorities, Regulation 2016/445 and a set of guidelines on the application of CRR's national options and discretions. In addition, the SSM represents an extra cost for the financial institutions that will fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund (as defined below). This Regulation complements the SSM which established a centralised power of resolution entrusted to the SRB and to the national resolution authorities as an integral part of the process of harmonisation of the resolution regime provided for by the BRRD. The SRB began operation on 1 January 2015 and fully assumed its resolution powers on 1 January 2016. From that date a single resolution fund (the "**Single Resolution Fund**") has also been in place, funded by contributions from European banks.

The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. total liabilities and own funds (or 20 per cent. of RWAs in certain cases) have already been bailed-in (in line with the BRRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Issuer's main supervisory authority may have a material impact on the Group's business, financial condition and results of operations. In particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes (respectively implemented into Spanish law through Law 11/2015 and Royal Decree 1012/2015) and the SRM Regulation, by means of which the obligation of filling the Single Resolution Fund with contributions raised at the national level by each participating Member State through its National Resolution Fund are established. A minimum 8 per cent. bail-in of a bank's total liabilities and own funds (or, where applicable, 20 per cent. of RWAs) will be required as a precondition for access to any direct recapitalisation by the European Stability Mechanism (ESM), as agreed by the Eurozone members in December 2014. Additionally, on 24 November 2015, the European Commission has proposed a draft regulation to amend the SRM Regulation, in order to establish a European deposit insurance scheme for bank deposits. This scheme proposal builds on the system of nation deposit guarantee schemes and is expected to provide a more uniform degree of insurance cover in the euro area.

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

Other regulatory reforms adopted or proposed in the context of the financial crisis may have a material adverse effect on the Group's business, financial condition and results of operations

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

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 ("**MiFIR**") and MiFID II), has introduced a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. MiFID II was initially intended to enter into effect on 3 January 2017. In order to ensure legal certainty and avoid potential market disruption, the European Commission proposed delaying the effective date of MiFID II by 12 months until 3 January 2018. Although MiFID II entered into force on 3 January 2018, it has only been partially transposed to the Spanish legislation by means of Royal Decree Law 21/2017, of 29 December, with regards to the conditions governing the operation of regulated markets, multilateral systems in financial instruments, organised trading facilities and infringements and sanctions. Therefore, there is still uncertainty as to whether the implementation of these new obligations and requirements will have material adverse effects on the Group's business, financial condition and results of operations.

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

Law 11/2015 and Royal Decree 1012/2015 have established a requirement for banks, including the Bank, to make at least an annual contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*)

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

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

The Group is subject to rules and regulations regarding money laundering, corruption and the financing of terrorism which have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. Although the Group believes that its current policies and procedures are sufficient to comply with applicable rules and regulations, it cannot guarantee that the Group-wide anti-money laundering, anti-corruption and anti-terrorism financing policies and procedures completely prevent situations of money laundering, corruption or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks related to the Preferred Securities

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

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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

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

(iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Write Down (as defined in the Conditions),

redemption or substitution of the Preferred Securities and any variation of their terms, and is familiar with the behaviour of financial markets; and

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

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

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

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

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

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the FROB, the SRB 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 Resolution Authority**") as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest.

The four resolution tools are: (i) sale of business (which enables the Relevant Resolution Authority to direct the sale of the institution or the whole or part of its business on commercial terms); (ii) bridge institution (which enables the Relevant Resolution Authority to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control)); (iii) asset separation (which enables the Relevant Resolution Authority to transfer certain categories of assets normally impaired or problematic to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only)); and (iv) bail-in (which gives the Relevant Resolution Authority the right to exercise certain elements of the Spanish Bail-in Power (as defined below)). This includes the ability of the Relevant Resolution Authority to write down (including to zero) and/or to convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims and subordinated obligations (including capital instruments such as the Preferred Securities).

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

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power to absorb losses and cover the amount of the recapitalisation, the sequence of any resulting write down or conversion shall be as follows: (i) CET1 instruments; (ii) Additional Tier 1 instruments (which for so long as the obligations of the Bank in respect of the Preferred Securities constitute Additional Tier 1 Instruments (as defined in the Conditions), shall include the Preferred Securities); (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; (v) "non-preferred" senior liabilities; and (vi) the remaining eligible liabilities. The order of this sequence is consistent with the hierarchy of claims in normal insolvency proceedings prescribed by Law 22/2003, of 9 July, on Insolvency (the "**Insolvency Law**") read in conjunction with Additional Provision 14.3º of Law 11/2015.

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

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

To the extent that any resulting treatment of a holder of the Preferred Securities pursuant to the exercise of the Spanish Bail-in Power or Non-Viability Loss Absorption is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder of such affected Preferred Securities may have a right to compensation under the BRRD and the SRM Regulation based on an independent valuation of the institution, in accordance with Article 10 of Royal Decree 1012/2015 and the SRM Regulation. Any such compensation, together with any other compensation provided by any Applicable Banking Regulations (including, among other such compensation, in accordance with Article 36.5 of Law 11/2015) is unlikely to compensate that Holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the affected Preferred Securities.

The powers set out in the BRRD as implemented through Law 11/2015, Royal Decree 1012/2015 and the SRM Regulation will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, Holders may be subject to, among other things, on any application of the Spanish Bail-in-Power a write down (including to zero) or conversion into equity or other securities or obligations of amounts due under the Preferred Securities and additionally may be subject to any Non-Viability Loss Absorption. The exercise of any such powers (or any other resolution powers and tools) may result in such Holders losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected. For example, the Spanish Bail-in Power may be exercised in such a manner as to result in Holders receiving a different security, which may be worth significantly less than the Preferred Securities.

Furthermore, the exercise of the Spanish Bail-in Power (including the exercise of the Non-Viability Loss Absorption) with respect to the Preferred Securities or the taking by the Relevant Resolution Authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of Holders, the market price or value or trading behaviour of any Preferred Securities and/or the ability of the Bank to satisfy its obligations under any Preferred Securities. There may be limited protections, if any, that will be available to holders of securities subject to the bail-in power (including the Preferred Securities) and to the broader resolution powers of the Relevant Resolution Authority. Accordingly, Holders of the Preferred Securities may have limited or circumscribed rights to challenge any decision of the Relevant Resolution Authority to exercise its bail-in power.

The exercise of the Spanish Bail-in Power and/or any Non-Viability Loss Absorption by the Relevant Resolution Authority with respect to the Preferred Securities is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the Bank's control. In addition, as the Relevant Resolution Authority will retain an element of discretion, Holders of the Preferred Securities may not be able to refer to publicly available criteria in order to anticipate any potential exercise of any such Spanish Bail-in Power and/or 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 Resolution Authority may occur.

This uncertainty may adversely affect the value of the Preferred Securities. The price and trading behaviour of the Preferred Securities 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 Resolution Authority may exercise any such powers without providing any advance notice to the Holders.

In addition to the guidance on bail-in provided by EBA under the BRRD dated 5 April 2017, the EBA's preparation of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines is pending. These acts could be potentially relevant to determining when or how a Relevant Resolution Authority may exercise the Spanish Bail-in Power and impose Non-Viability Loss Absorption. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a holder of Preferred Securities under, and the value of a holder's investment in, the Preferred Securities.

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

affect the rights of Holders of the Preferred Securities, the price or value of an investment in the Preferred Securities and/or the Group's ability to satisfy its obligations under the Preferred Securities.

Preferred Securities are perpetual

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption. Only in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution (as defined in the Conditions).

Upon the occurrence of a Trigger Event, the principal amount of the Preferred Securities will be Written Down

The Preferred Securities are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as additional tier 1 capital of the Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions. One of these relates to the ability of the Preferred Securities and the proceeds of their issue to be available to absorb any losses of the Group.

Accordingly, if at any time the CET1 ratio of the Group falls below 5.125 per cent. (a "**Trigger Event**"), the Issuer shall immediately notify the Competent Authority, shall cancel any accrued and unpaid Distributions up to (but excluding) the Write Down Date (as defined in the Conditions) and, without delay and by no later than one month from the occurrence of the relevant Trigger Event, shall irrevocably and mandatorily (and without the need for the consent of the Holders), reduce the then Outstanding Principal Amount of each Preferred Security by the relevant Write Down Amount (as defined below) (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

Any such decision shall be binding on the Holders as described in the Conditions.

The relevant Write Down Amount of each Preferred Security will be the lower of (i) and (ii) below:

(i) the amount per Preferred Security which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Preferred Securities and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments (as defined in the Conditions)) to restore the Group's CET1 ratio to at least 5.125 per cent.; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Preferred Security to one cent.

Write Down of the Preferred Securities will be effected, save as may otherwise be required by the Competent Authority, pro rata with (a) the concurrent Write Down of the other Preferred Securities and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), provided, however, that:

(i) with respect to each Loss Absorbing Instrument (if any), such pro rata write down or conversion shall only be taken into account to the extent required to restore the CET1 ratio of the Group to the lower of (a) such Loss Absorbing Instrument's trigger level and (b) 5.125 per cent. (being the level at which a Trigger Event occurs in respect of the Preferred Securities); and

(ii) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Preferred Securities will be Written Down notwithstanding that the relevant Loss

Absorbing Instruments are not also written down or converted (and, in such circumstances, the Write Down Amount may be higher than would otherwise have been the case).

For the avoidance of doubt, where the Group's CET1 ratio falls below 5.125 per cent., any Loss Absorbing Instruments with a trigger level expressed by reference to a relevant CET1 ratio falling below a level which is equal to or higher than 5.125 per cent. may be expected to share losses pro rata with the Preferred Securities until the CET1 ratio has been restored to at least 5.125 per cent.

The Write Down of the Preferred Securities will affect the claims of the Holders in various respects. Firstly, in the event of a liquidation or winding-up of the Issuer, the claims of the Holders will be in respect of the Outstanding Principal Amount of the Preferred Securities at the time of the liquidation or winding-up of the Issuer, and not for the Original Principal Amount. Similarly, upon a redemption of the Preferred Securities by the Issuer following the occurrence of a Capital Event or a Tax Event, the redemption amount of each Preferred Security will be its Outstanding Principal Amount (together with accrued and unpaid interest) and not its Original Principal Amount. The Issuer is not permitted to redeem the Preferred Securities pursuant to Condition 7.2, until any principal amount by which the Preferred Securities have been Written Down pursuant to Condition 6.1 have first been reinstated in full pursuant to Condition 6.2; however, that restriction does not apply to a redemption following the occurrence of a Capital Event or a Tax Event.

Secondly, Distributions will accrue only on the Outstanding Principal Amount of the Preferred Securities from time to time, and accordingly for so long as the Outstanding Principal Amount of the Preferred Securities is less than their Original Principal Amount, the maximum amount of Distributions which may be paid by the Issuer (subject always to applicable payment restrictions and Distributions cancellation as provided in Condition 4) on any Distribution Payment Date shall be less than if no Write Down had occurred.

A Write Down may occur on any one or more occasions, and the Outstanding Principal Amount of the Preferred Securities may be reduced in part or in whole (save that no Preferred Security shall be Written Down below one cent). Holders will not be entitled to any compensation or other payment as a result of any Write Down of the Preferred Securities. Accordingly, if a Trigger Event occurs, Holders could lose all or part of the value of their investment in the Preferred Securities if the Issuer subsequently redeems the Preferred Securities following the occurrence of a Tax Event or a Capital Event or a liquidation or winding-up of the Issuer occurs.

Whilst the Conditions provide for a Write Up of the principal amount of the Preferred Securities in certain circumstances, any such Write Up will be in the sole and full discretion of the Issuer, there is no provision for the automatic Write Up of the Preferred Securities in any circumstances and any Write Up will be subject to certain restrictions. Write Up may only occur if the Group generates a positive Consolidated Net Income (as defined in the Conditions) in any given financial year and up to the Maximum Write Up Amount (as defined in the Conditions). Write Up shall be operated at the sole and absolute discretion of the Bank. Further, a Write Up will not be effected in circumstances where it would cause a Trigger Event, or would result in any Maximum Distributable Amount (if any) to be exceeded. See Condition 6.2 for further details. Even if, following a Trigger Event, the Group records a positive Consolidated Net Income, there can be no assurance that any Write Up of any part of the principal amount of the Preferred Securities will be effected.

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

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Group's control. For example, the occurrence of one or more of the risks described under *"—Risk relating to Macroeconomic Conditions"* and *"Risks affecting the Bank's financial activity"*, or the deterioration of the circumstances described therein, will increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the Group's business and its future earnings; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in

respect of instruments ranking junior to the Preferred Securities as well as other instruments ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities; regulatory changes (including possible changes in regulatory capital definitions and calculations of the CET1 ratio and its components or the interpretation thereof by the relevant authorities, including CET1 Capital and RWAs and the unwinding of transitional provisions under CRD IV); changes in the Group's structure or organisation and the Group's ability to manage actively its RWAs. The CET1 ratio of the Group at any time may also depend on decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position. Neither the Bank nor the Group will have any obligation to consider the interests of the Holders of the Preferred Securities in connection with its strategic decisions, including in respect of its capital management. Holders of the Preferred Securities will not have any claim against the Bank or any other member of the Group in relation to any such decision. In addition, since the Competent Authority may require the Group to calculate the CET1 ratio at any time, a Trigger Event could occur at any time.

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

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

The Preferred Securities accrue Distributions as defined and further described in Condition 4, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. No payments will be made on the Preferred Securities if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive). See further "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount*" below for additional information.

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

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

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

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank will not be in any way limited or restricted from making any Distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

Furthermore, upon the occurrence of the Trigger Event, any accrued and unpaid Distributions up to (but excluding) the Write Down Date shall be cancelled.

Additionally, in relation to the foregoing, investors should be aware that the Bank shall only pay any additional amounts payable in accordance with Condition 12 to the extent such payment can be made on the same basis as for a payment of any Distribution in accordance with Condition 4.

Although it is the Bank's intention to take into account the relative ranking of capital instruments when approving dividends and distributions, as further set out in the risk factor below on "*The obligations of the Bank under the Preferred Securities are subordinated*", in accordance with the Applicable Banking Regulations and the Conditions, the Bank may discretionarily elect to cancel Distributions at any time and for any reason.

The level of the Bank's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Bank to make Distributions on the Preferred Securities

The Bank will cancel any Distribution (in whole or in part) which could otherwise be paid on Distribution Payment Date if and to the extent that payment of such Distribution would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Bank. Distributable Items for the Bank amount to €217,155,653 as of 31 December 2017.

The level of the Bank's Distributable Items is affected by a number of factors. The Bank's future Distributable Items, and therefore the ability of the Bank to make Distribution payments under the Preferred Securities, are a function of the Bank's existing Distributable Items and its future profitability. In addition, the Bank's Distributable Items may also be adversely affected by the servicing of more senior instruments or parity ranking instruments.

The level of the Bank's Distributable Items may also be affected by changes to accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Bank's Distributable Items in the future.

The Bank's Distributable Items, and therefore the Bank's ability to make Distribution payments under the Preferred Securities, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Bank's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount

No payments will be made on the Preferred Securities if and to the extent that such payment would, when aggregated together with other relevant distributions cause the Maximum Distributable Amount (if any) to be exceeded.

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of RWAs. In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional "Pillar 2" capital requirements that may be required to be maintained to address risks not considered to be fully captured by the minimum "own funds" requirements or to address macro-prudential considerations, and this may similarly include, under the Proposals made by the European Commission on 23 November 2016, further regulatory requirements such as the TLAC/MREL Requirements.

CRD IV further introduces capital buffer requirements that form a "combined buffer requirement" that is in addition to the above minimum capital requirements and is required to be satisfied with CET1 capital.

In accordance with Article 48 of Law 10/2014, Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016 (which implement Article 141 of the CRD IV Directive), an entity not meeting its "combined buffer requirement" must calculate its Maximum Distributable Amount and until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain, that entity will be subject to restrictions on discretionary payments. Following such calculation, any discretionary payments by that entity will be subject to the Maximum Distributable Amount so calculated.

In accordance with Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, the restrictions on discretionary payments will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution generated since the last annual decision on the distribution of profits. Such calculation will result in a "Maximum Distributable Amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary payments" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Bank of its discretion to cancel (in whole or in part) payments of Distributions (including payment of any additional amounts payable in accordance with Condition 12) in respect of the Preferred Securities.

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

- the "Maximum Distributable Amount" applies when the "combined buffer requirement" is not maintained. The "combined buffer requirement" represents the amounts of CET1 capital that a financial institution is required to maintain beyond the minimum "Pillar 1" and (if applicable) "Pillar 2" required by applicable regulations. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust) and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;

- the capital conservation buffer and the institution-specific countercyclical buffer were implemented on 1 January 2016 on a phased-in basis continuing to 2019. The systemic risk buffer may be applied at any

time upon decision of the relevant authorities. As a result, the potential impact of the "Maximum Distributable Amount" will change over time; and

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

The quantum of "Pillar 2" capital requirements and the type of resources that it must apply to meeting it, may impact a bank's ability to make discretionary payments on its Tier 1 capital, including interest payments on Additional Tier 1 instruments.

The interaction between "Pillar 2" and the Maximum Distributable Amount restriction has been the subject of much debate in the EU.

Amongst other things, the *December 2015 EBA Opinion* (which does not have the force of law) included an opinion addressed to EEA competent authorities that they should ensure that the CET1 capital to be taken into account for the Maximum Distributable Amount calculation is limited to the amount not used to meet "Pillar 1" and "Pillar 2" capital requirements of the institution. In effect, this would mean that "Pillar 2" capital requirements would be 'stacked' below the capital buffers, and thus a firm's CET1 capital resources would only be applied to meeting capital buffer requirements after "Pillar 1" and "Pillar 2" capital requirements have been met in full.

In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between P2R (stacked below the capital buffers and thus potentially directly affecting the application of a Maximum Distributable Amount) and P2G (stacked above the capital buffers). With respect to P2G, the publication stated that, in response to the stress test results, competent authorities may (amongst other things) consider setting capital guidance, above the combined buffer requirement. In cases where capital guidance is provided, that guidance will not be included in calculations of the Maximum Distributable Amount, but competent authorities would expect banks to meet that guidance. Competent authorities have remedial tools if an institution is not able to follow such guidance.

The ECB published a set of "*Frequently asked questions on the 2016 EU-wide stress test*", confirming this distinction between P2R and P2G and noting that under the stacking order, banks facing losses will first fail to fulfil their P2G. In case of further losses, they would next breach the combined buffers, then P2R, and finally "Pillar 1". P2R is binding and breaches can have direct legal consequences for banks, while P2G is not directly binding and a failure to meet P2G does not automatically trigger legal action, even though the ECB expects banks to meet P2G. Following this clarification, it is understood that P2G is not expected to trigger the automatic calculation of the Maximum Distributable Amount. The *EBA Draft Guidelines* clarify the same stacking order. However, it cannot be disregarded that this position may change in the future.

Separately, certain regulatory proposals may restrict the Bank's ability to make discretionary payments in certain circumstances, in which case the Bank may reduce or cancel Distributions on the Preferred Securities. For example, under the Proposals made by the European Commission on 23 November 2016, a firm will be deemed not to have met its combined buffer requirement, and will become subject to the restrictions of Article 141 of CRD IV, where it does not have own funds and eligible liabilities in an amount and quality to meet: (i) its combined buffer requirement, (ii) its 4.5 per cent. of RWAs "Pillar 1" CET1 capital requirement, (iii) its 6 per cent. of RWAs "Pillar 1" Tier 1 requirement, (iv) its 8 per cent. of RWAs "Pillar 1" total capital requirement, and (v) its "Pillar 1" MREL requirements. Separately, these proposals also state that where an institution fails

to meet or exceed its combined buffer requirement, in making distributions within the Maximum Distributable Amount, it shall not make distributions relating to CET1 capital or variable remuneration payments before having made payments on its Additional Tier 1 instruments. However, these proposals are in draft form and are still subject to the EU legislative process and national implementation and, therefore, it is not clear whether these proposals will be adopted in their current form and there may therefore be a risk that they will negatively impact the Bank, the Group and the Bank's ability to make Distributions on the Preferred Securities and therefore the value of the Preferred Securities.

Furthermore, any determination of the capital of the Bank and/or the Group and the compliance of the Bank and/or the Group with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or a combination of which may not be easily observable or capable of calculation by Holders and some of which may also be outside of the control of the Group. The risk of any cancellation (in whole or in part) of Distributions (including any additional amounts payable in accordance with Condition 12) on the Preferred Securities may not, therefore, be predicted in advance and any such cancellation of Distributions (including any additional amounts payable in accordance with Condition 12) on the Preferred Securities could occur without warning (see "*—Increasingly onerous capital requirements constitute one of the Group's main regulatory challenges*" for additional information).

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

As outlined in the risk factor "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount*" above, the regulatory framework around the TLAC/MREL Requirement, including its implementation in Spain, is not yet in final form and is also the subject of the Proposals. If the Proposals are adopted in their current form, a failure by the Bank and/or the Group to comply with the TLAC/MREL Requirements means the Bank could become subject to the restrictions on payments on Additional Tier 1 instruments, including the Preferred Securities (subject to a potential six-month grace period in case specific conditions are met).

The obligations of the Bank under the Preferred Securities are subordinated

The payment obligations of the Bank under the Preferred Securities on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law read in conjunction with Additional Provision 14.3º of Law 11/2015, and upon the insolvency of the Bank, for so long as the obligations of the Bank under the Preferred Securities qualify as Additional Tier 1 Instruments but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise) rank as set out in Condition 3. For these purposes, as of the date of this Prospectus and according to Additional Provision 14.3º of Law 11/2015, the ranking of the Preferred Securities and any other subordinated obligations of the Bank may depend on whether those obligations qualify at the relevant time an Additional Tier 1 Instruments or Tier 2 Instruments or constitute subordinated obligations of the Bank not qualifying as Additional Tier 1 Instruments or Tier 2 Instruments. See Condition 3 for the complete provisions regarding the ranking of the Preferred Securities.

In addition, if the Bank were wound up or liquidated, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other creditors ranking ahead of Holders. If the Bank does not have sufficient assets to settle claims of prior ranking creditors in full, the claims of the Holders under the Preferred Securities will not be satisfied. Holders will share equally in any distribution of assets with the holders of any other instrument ranking by law or by its terms, to the extent

permitted by law, *pari passu* with the Preferred Securities if the Bank does not have sufficient funds to make full payment to all of them. In such a situation, Holders could lose all or part of their investment.

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

There are no events of default

Holders of the Preferred Securities have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution (including any additional amounts payable in accordance with Condition 12) in whole or in part at any time and as further contemplated in Condition 4 (see "*—Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*" for additional information) and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank. Moreover, if the Preferred Securities are not Written Down following a Trigger Event, then on a liquidation or winding-up of the Bank the claim of a Holder will be an entitlement to receive out of the relevant assets a monetary amount equal to that which Holders would have received on any distribution of the assets of the Bank if such reduction had taken place immediately prior to such liquidation, dissolution or winding-up.

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

All, and not only some, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Competent Authority, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price and otherwise in accordance with Applicable Banking Regulations then in force. Under the CRR, the Competent Authority may give its consent to a redemption or repurchase of the Preferred Securities in such circumstances provided that either of the following conditions is met:

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

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

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

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

Under the Preferred Securities, a Capital Event is a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would be likely to result) in: (i) the exclusion of any of the aggregate Outstanding Principal Amount of the Preferred Securities from the Group's Additional Tier 1 capital; or (ii) the reclassification of any of the aggregate Outstanding Principal Amount of the Preferred Securities as a lower quality form of regulatory capital of the Group in accordance with the Applicable Banking Regulations. See also Condition 7.3.

For the purposes of the Preferred Securities, a Tax Event is a change in, or amendment to, the laws or regulations of the Kingdom of Spain, or any change in the application such laws or regulations that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being obliged to pay additional amounts pursuant to Condition 12, or (c) the applicable tax treatment of the Preferred Securities being materially affected and, in each case, cannot be avoided by the Bank taking reasonable measures available to it. See also Condition 7.4.

If any notice of redemption of the Preferred Securities is given pursuant to Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the reduction of the Outstanding Principal Amount of the Preferred Securities shall take place as provided under Condition 6.2.

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or, in the case of a redemption of the Preferred Securities for tax reasons, the application thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Preferred Securities, and if so whether or not the Bank will elect to exercise such option to redeem the Preferred Securities or any prior consent of the Competent Authority required for such redemption will be given. There can be no assurances that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Preferred Securities. In the case of any early redemption of the Preferred Securities at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, the Bank may be expected to exercise this option when its funding costs are lower than the Distribution Rate at which Distributions are then payable in respect of the Preferred Securities. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that Distribution Rate.

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

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

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

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

The Preferred Securities are perpetual (see "*—Preferred Securities are perpetual*" for additional information). The Bank has the option to redeem the Preferred Securities in certain circumstances (see "*—The Preferred Securities may be redeemed at the option of the Bank*" and "*—A Capital Event may occur if the Bank loses the*

Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities" for additional information). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 7 and 9). There can be no assurance that Holders will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

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

(i) if the Bank exercises its rights to redeem the Preferred Securities in accordance with Condition 7 (on any Distribution Payment Date falling on or after the First Reset Date or upon the occurrence of a Capital Event or a Tax Event) (see "*—The Preferred Securities may be redeemed at the option of the Bank*" and "*—A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities*" for additional information) or purchase the Preferred Securities in accordance with Condition 9; or

(ii) by selling their Preferred Securities, provided a secondary market exists at the relevant time for the Preferred Securities (see "*—The secondary market in general*" for additional information).

If the Bank exercised its right to redeem the Preferred Securities in accordance with Condition 7 but failed to make payment of the relevant Outstanding Principal Amount to redeem the Preferred Securities when due, such failure would only entitle Holders to bring a claim for breach of contract against the Bank, which, if successful, could result in damages. In such case, Distributions will continue to accrue in accordance with Condition 4 above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price (as defined in the Conditions).

The terms of the Preferred Securities contain a waiver of set-off rights

The TLAC Principles and Term Sheet and the Proposals provide that eligible instruments may not be subject to set off or netting rights that would undermine their loss absorbing capacity in resolution. The exercise of set-off rights in respect of the Bank's obligations under the Preferred Securities upon the opening of a resolution procedure would be prohibited by Article 68 of BRRD (as transposed into Spanish law).

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

The interest rate on the Preferred Securities will be reset on each Reset Date, which may affect the market value of the Preferred Securities

The Preferred Securities will bear interest at an initial fixed rate of interest from (and including) the Closing Date to (but excluding) the First Reset Date. From (and including) the First Reset Date, and on every Reset Date thereafter, the interest rate will be reset as described in Condition 4. This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any Distributions under the Preferred Securities and so the market value of an investment in the Preferred Securities.

Substitution and variation of the Preferred Securities without Holder consent

Subject to Condition 8, if a Tax Event or a Capital Event occurs, the Bank may, instead of redeeming the Preferred Securities, at any time, without the consent of the Holders, and subject to receiving consent from the Competent Authority, either (a) substitute new preferred securities for all (but not some only) the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of all (but not some only) the Preferred Securities, so that the Preferred Securities may become or remain

Qualifying Preferred Securities (as defined in the Conditions), provided that such substitution or variation shall not result in terms that are materially less favourable to the Holders, as certified by two Authorised Signatories (as defined in the Conditions) of the Issuer and an Independent Financial Adviser (as defined in the Conditions). In the exercise of its discretion, the Bank will have regard to the interest of the Holders as a class.

While Qualifying Preferred Securities must contain terms that are materially no less favourable to Holders as the original terms of the Preferred Securities, there can be no assurance that the terms of any Qualifying Preferred Securities will be viewed by the market as equally or more favourable, or that the Qualifying Preferred Securities will trade at prices that are equal to or higher than the prices at which the Preferred Securities would have traded on the basis of their original terms.

Moreover, prior to the making of any such substitution or variation, the Bank, shall not be obliged to have regard to the tax position of individual Holders or to the tax consequences of any such substitution or variation for individual Holders. No Holder shall be entitled to claim, whether from the Bank, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual Holders of Preferred Securities.

There are limited remedies available under the Preferred Securities

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

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

Condition 11 contains provisions for calling meetings of holders of the Preferred Securities to consider matters affecting the interests of Holders of the Preferred Securities generally. These provisions permit defined majorities to bind all Holders of the Preferred Securities including those Holders who did not attend and vote at the relevant meeting and who voted in a manner contrary to the majority.

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

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

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

Any changes in laws and regulations (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio or the CET1 Capital of the Group or the RWAs of the Group. Furthermore, because the occurrence of the Trigger Event and restrictions on Distributions where subject to a Maximum Distributable Amount depends, in part, on the calculation of these ratio and capital measures, any change in Spanish laws or their official interpretation by regulatory authorities

that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

Such calculations may also be affected by changes in applicable accounting rules, the Group's accounting policies and the application of these policies. Any such changes, including changes over which the Group has a discretion, may have a material adverse impact on the Group's reported financial position and accordingly may give rise to the occurrence of the Trigger Event in circumstances where such Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders of the Preferred Securities.

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

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

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

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

Impact of financial transaction taxes

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's proposal**"), for a financial transaction tax (the "**FTT**") to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate). If the Commission's proposal was adopted, the FTT would be a tax primarily on "financial institutions" (which would include the Bank) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's proposal, the FTT could apply under certain circumstances to persons both within and outside of the participating member states. Generally, it would apply 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 financial transaction is issued in a participating member state.

The FTT may give rise to tax liabilities for the Bank with respect to certain transactions if it is adopted based on the Commission's proposal. Examples of such transactions are the conclusion of a derivative contract in the context of the Bank's hedging arrangements or the purchase or sale of securities. It should also be noted that

the FTT could be payable in relation to relevant transactions by investors in respect of the Preferred Securities (including secondary market transactions) if conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation EC No 1287/2006 are expected to be exempt.

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to implementation, the timing of which remains unclear. Additional EU member states may decide to participate.

Prospective Holders are advised to seek their own professional advice in relation to the FTT.

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

Risks related to the Spanish withholding tax regime

Article 44 of Royal Decree 1065/2007, of 27 July 2007, as amended by Royal Decree 1145/2011, of 29 July 2011 ("**Royal Decree 1065/2007**") sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. 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 wording of section 4 of Article 44 of Royal Decree 1065/2007, income derived from securities originally registered with Iberclear will be paid by the Bank net of Spanish withholding tax (currently, at a rate of 19 per cent.) if the recipient of the payment is an individual resident in Spain for tax purposes and subject to Spanish Personal Income Tax ("**PIT**"). The Bank will not pay any additional amounts in respect of any such withholding tax.

On the other hand, interest payments made by the Bank in respect of the Preferred Securities 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 Preferred Securities 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 Bank, in a timely manner, with a duly executed and completed statement (a Payment Statement), in accordance with section 4 of Article 44 of Royal Decree 1065/2007, with the following information:

1. Identification of the Preferred Securities.
2. Total amount of the income paid by the Bank.
3. Amount of the income corresponding to individuals' residents in Spain that are PIT taxpayers.
4. 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 Bank in a timely manner in respect of a payment of income made by the Bank under the Preferred Securities, such payment will be made net of Spanish withholding tax, currently at the rate of 19 per cent.

Should this occur, affected beneficial owners would receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to the

Bank no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish Non-Resident Income Tax Law ("**NRIT**") (as defined in "*Taxation*").

Prospective investors should note that the Bank 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 Preferred Securities. Accordingly, the Bank 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 Bank. Moreover, the Bank 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 Preferred Securities. The Bank does not assume any responsibility in this regard.

U.S. Foreign Account Tax Compliance Withholding

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

Risks in relation to the market

The secondary market in general

Although the Preferred Securities have been registered with Iberclear as managing entity of the Spanish Central Registry and application has been made for admission to listing and trading on AIAF, there is no assurance that such application will be accepted or that an active trading market will develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 9. Therefore, investors may not be able to sell their Preferred Securities

easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

As the Preferred Securities are registered with Iberclear investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Preferred Securities have been registered with Iberclear. Consequently, no physical notes have been or will be issued. Clearing and settlement relating to the Preferred Securities, as well as payment of interest and redemption of principal amounts, will be performed within Iberclear's account-based system. The investors are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Preferred Securities is evidenced by book entries (*anotaciones en cuenta*), and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the respective participating entities in Iberclear as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Preferred Securities recorded therein.

The Issuer will discharge its payment obligation under the Conditions by making payments through Iberclear. Holders must rely on the procedures of Iberclear and its participants to receive payments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, Holders according to book entries and registries as described in the previous paragraph. In addition, the Issuer has no responsibility for the proper performance by Iberclear or their participants of their obligations under their respective rules and operating procedures.

A summary of clearance and settlement procedures applicable to book-entry notes in Spain is contained under Section *"Market Information—Summary of Clearance and Settlement Procedures"*.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption moneys payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Bank to make payments in respect of the Preferred Securities. As a result, investors may receive less than expected, or may receive nothing at all.

Risks relating to EURIBOR and other "benchmarks"

The determination of the Distributions in respect of the Preferred Securities after the First Reset Date is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") calculated at the relevant time (as specified in the Conditions). The EURIBOR and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change with the result that they may perform differently than in the past or other consequences which cannot be predicted.

In this respect, the Benchmark Regulation, which was published in the Official Journal of the EU on 29 June 2016, applies to "contributors", "administrators" and "users" of "benchmarks" in the EU, and will, among other

things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of "benchmarks" (or, if non EU based, to be subject to equivalent requirements) and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised/registered (or, if non EU based, deemed equivalent or recognised or endorsed). As of the date of this Prospectus, ICE Benchmark Administration Limited and the European Money Markets Institute do not appear on the register of administrators and benchmarks established and maintained by ESMA.

The scope of the Benchmark Regulation is wide and, in addition to so-called "critical benchmark" indices, applies to many interest rate and foreign exchange rate indices, equity indices and other indices (including "proprietary" indices or strategies) where used to determine the amount payable under or the value or performance of certain financial instruments traded on a trading venue or via a systematic internaliser, financial contracts and investment funds, which could also include the 5-year Mid-Swap Rate.

The Benchmark Regulation could have a material impact on securities traded on a trading venue or via a "systematic internaliser" linked to a "benchmark" index, including in any of the following circumstances: (i) an index which is a "benchmark" could not be used by a supervised entity in certain ways if its administrator does not obtain authorisation or registration or, if based in a non-EU jurisdiction, the administrator is not recognised as equivalent or recognised or endorsed and the transitional provisions do not apply; and (ii) the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level of the benchmark.

Either of the above could potentially lead to the securities being de-listed, adjusted or redeemed early or otherwise impacted depending on the particular "benchmark" and the applicable terms of the securities or have other adverse effects or unforeseen consequences.

More broadly, any of the international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks".

Any such consequence could affect the manner in which Distributions determinations are required to be made pursuant to the Conditions, and have a material adverse effect on the value of and return on any the Preferred Securities.

Interest rate risk

Investment in the Preferred Securities involves the risk that if market interest rates subsequently increase above the rate paid on the Preferred Securities, this will adversely affect the value of the Preferred Securities. Investors should be aware that movements of the interest rate can adversely affect the price of the Preferred Securities and can lead to losses for the Holders if they sell the Preferred Securities.

Holders are exposed to the risk of fluctuating interest rate levels. Fluctuating interest rate levels make it impossible to determine the yield of the Preferred Securities in advance.

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

The Preferred Securities are expected to be rated B- and B by S&P and Fitch, respectively. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Preferred Securities does not address the likelihood that Distributions (including any additional amounts payable in accordance with Condition 12) or any other payments in respect of the Preferred Securities will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

Any change in the credit ratings assigned to the Preferred Securities may affect the market value of the Preferred Securities. Such change may, among other factors, be due to a change in the methodology applied by a rating agency to rating securities with similar structures to the Preferred Securities, as opposed to any revaluation of the Bank's financial strength or other factors such as conditions affecting the financial services industry generally.

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

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

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

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus is to be read in conjunction with all documents which have been incorporated by reference herein. This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Each document incorporated herein by reference is only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer or the Group, as the case may be, since the date thereof or that the information contained therein is current as of any time subsequent to its date. Any statement contained in any document incorporated herein by reference shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The following documents, which have been previously published and have been filed with the CNMV, are incorporated in, and form part of, this Prospectus:

(a) Ibercaja's audited consolidated annual accounts, the consolidated directors' report, together with the audit report of PricewaterhouseCoopers Auditores, S.L. as of and for the year ended 31 December 2017, available at Ibercaja's website (https://www.ibercaja.com/archivo/sp/4937) and on the CNMV website (www.cnmv.es).

(b) Ibercaja's audited consolidated annual accounts, the consolidated directors' report, together with the audit report of PricewaterhouseCoopers Auditores, S.L. as of and for the year ended 31 December 2016, available at Ibercaja's website (https://www.ibercaja.com/archivo/sp/4545) and on the CNMV website (www.cnmv.es).

(c) Ibercaja's audited consolidated annual accounts, the consolidated directors' report, together with the audit report of PricewaterhouseCoopers Auditores, S.L. as of and for the year ended 31 December 2015, available at Ibercaja's website (https://www.ibercaja.com/archivo/sp/4078) and on the CNMV website (www.cnmv.es). The documents referred to in this paragraph (c) have been incorporated by Ibercaja on a voluntary basis as it is not a requirement under the Prospectus Regulation.

English translations

English translations of the consolidated annual accounts and the consolidated directors' reports as of and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 are available at Ibercaja's website (https://www.ibercaja.com/archivo/en/4937, www.ibercaja.com/archivo/en/4545 and https://www.ibercaja.com/archivo/en/4078, respectively).

The referred English translations are for information purposes only. In the event of a discrepancy, the original Spanish-language versions prevail.

DESCRIPTION OF THE ISSUER

Overview

Ibercaja, whose legal name is Ibercaja Banco, S.A., is a Spanish bank which conducts its business under the commercial name Ibercaja. The Issuer has its registered office in the city of Zaragoza (Spain), at Plaza Basilio Paraíso 2 (contact telephone number +34 97 676 76 76). The Issuer was registered at the Mercantile Registry Office of Zaragoza, in volume 3,865, book 0, sheet 1, page Z-52186, entry number 1, on 23 September 2011 for an indefinite period of time. In addition, the Issuer is registered in the Special Register of the Bank of Spain (*Registro Administrativo de Bancos y Banqueros del Banco de España*), under number 2,085, with Legal Entity Identifier (L.E.I) code 549300OLBL49CW8CT155.

The Issuer is a Spanish company with legal status as a public limited company (*sociedad anónima*) and is governed by the Spanish Companies Law, approved by Royal Decree-Law 1/2010, of 2 July, as amended (the "**Spanish Companies Law**"). The Issuer is also subject to (i) the supervision, control and regulation of the ECB and the Bank of Spain, (ii) the supervision of the CNMV, (iii) the supervision of the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*) with regard to its insurance business, and (iv) special legislation applicable to lending institutions in general.

Ibercaja and its consolidated subsidiaries (the "**Group**" or the "**Ibercaja Group**") engage mainly in retail banking, and conduct most of their business in Spain. Its corporate purpose consists of the performance of all kinds of activities, operations, acts, contracts and services, associated with banking in general and which is authorised to carry out under legislation in effect, including the rendering of investment and auxiliary services.

The Issuer was established as a result of the segregation of the financial activity of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja and the reorganisation of that activity to a bank. Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja was established by the Real y Excelentísima Sociedad Económica Aragonesa de Amigos del País under Royal Order of 28 January 1873 (*Real Orden de 28 de enero de 1873*), and initiated its activities on 28 May 1876. Ibercaja is also the result of its integration with Banco Grupo Cajatrés, S.A. ("**Caja3**"), an entity formed by the merger of Caja de Ahorros de la Inmaculada de Aragón ("**CAI**"), Monte de Piedad y Caja General de Ahorros de Badajoz ("**Caja Badajoz**") and Monte de Piedad del Círculo Católico de Burgos ("**Caja Círculo de Burgos**").

Integration of Ibercaja and Caja3

In July 2013, the Issuer achieved the ownership of 100 per cent. of the share capital of Caja3, whose restructuring plan approved by the Bank of Spain and the European Commission foresaw to integrate into a larger financial group. For this purpose, the Issuer carried out a capital increase of €325.5 million which was subscribed by the shareholders of Caja3 (CAI, Caja Badajoz and Caja Círculo de Burgos) in exchange for this entity's entire share capital. The new shareholders (nowadays turned into foundations) obtained a joint holding of 12.2 per cent. of the share capital of the Issuer, whilst Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja held a stake of 87.8 per cent. and became a banking foundation (Fundación Bancaria Ibercaja) in accordance with Spanish legislation.

In October 2014, the deed of merger by absorption of Caja3 by Ibercaja was executed. Caja3 ceased to exist by dissolution without liquidation, and all its assets were transferred to the Issuer by means of universal transfer.

Recent developments

Early redemption of contingent convertible bonds

On 24 March 2017, once the consent of the ECB was obtained, Ibercaja redeemed early €223.6 million of contingent convertible bonds issued by Caja3 in 2013. With the proceeds obtained from this early redemption, as well as the funds obtained from a redemption in March 2016 and an early redemption in December 2016, Ibercaja paid back the public funds received by Caja3, which amounted to €407 million.

Collective redundancies

In May 2017, Ibercaja reached an agreement to reduce its staff by up to 590 employees and to close up to 140 branches by June 2018 (equivalent to 11 per cent. of Ibercaja's workforce). This staff reduction affected 346 employees in 2017. The rest will be made in the first half of 2018, subject to the approval of the Bank's managing bodies.

The collective redundancies costs amounted to €71.9 thousand in 2017, which Ibercaja has recorded as personnel expenses in the consolidated income statement for 2017.

Extension of depositary agreement with Cecabank, S.A.

Ibercaja Gestión S.G.I.I.C., S.A. ("**Ibercaja Gestión**") and Ibercaja Pensión E.G.F.P., S.A.U. ("**Ibercaja Pensión**"), the mutual and pension fund management companies of Ibercaja, have reached an agreement with Cecabank, S.A. ("**Cecabank**") whereby the latter will continue to act as the exclusive depositary for 80 per cent. of the assets under management related to the mutual funds, variable capital investment companies (*Sociedades de Inversión de Capital Variable* or SICAVs) and individual pension funds of Ibercaja Gestión and Ibercaja Pensión, until 31 December 2027. Additionally, Cecabank will continue to act as the exclusive depositary of the remaining 20 per cent. until 31 December 2022.

As a result of this agreement, Ibercaja has received a payment of €80.2 million which was accounted as of December 2017, and could receive variable payments up to a total amount of €28 million over the next ten years, depending on the evolution of the depositary business of Cecabank.

This agreement is an extension of the 2013 contract, whereby Cecabank became the depositary agent of the two subsidiaries of Ibercaja.

2018 – 2020 Strategic Plan

In March 2018, Ibercaja has revised its strategic plan for 2018 through to 2020, which has been based on the improvement of the three key pillars of solvency, asset quality and profitability and which has resulted in the setting of new financial and operating targets, including those set out below.

For the 2018-2020 plan period, Ibercaja aims to achieve sustainable profitability and has targeted a ROTE above 9.0 per cent.; a RORWA of 1.2 per cent.; and a recurring cost-to-income ratio below 55 per cent. In terms of asset quality, Ibercaja has targeted a cost of risk of 35 basis points; a NPA ratio of 6.5 per cent.; a Texas ratio below 55 per cent.; and a NPA coverage ratio of 54 per cent. Finally, in terms of solvency, Ibercaja aims to achieve a fully loaded CET1 ratio above 11.5 per cent. and a fully loaded total capital ratio above 15 per cent.

The ROTE, the RORWA, the recurring cost-to-income ratio, the NPA ratio, the Texas ratio, the NPA coverage ratio are APMs, the definition, explanation, use and reconciliation of which is set out in "*Description of the Issuer—Alternative Performance Measures*".

Capital adequacy

The following table sets forth details of the RWAs and the *phased-in* capital and leverage ratios of the Group:

	31 December	
	2017	**2016**
CET1 ratio	11.72%	12.00%
Tier 1 ratio	11.72%	12.00%
Total capital ratio	13.93%	14.23%
Total risk-weighted assets (RWAs) (€ thousand)	22,266,290	23,169,135
Leverage ratio	5.41%	5.37%

The following table sets forth details of the *fully loaded* capital ratios of the Group:

	31 December	
	2017	**2016**
CET1 ratio *fully loaded*	11.04%	10.17%
Tier 1 ratio *fully loaded*	11.04%	10.17%
Total capital ratio *fully loaded*	13.26%	12.41%
Total RWAs *fully loaded* (€ thousand)	22,150,133	23,107,976

SREP requirements

In December 2017, the Bank received the decisions of the ECB regarding minimum capital requirements for 2018 following the outcomes of the most recent SREP. These decisions require the Group to maintain a phased-in CET1 ratio of 8.125 per cent. of RWAs and a total capital ratio of 11.625 per cent. of RWAs (8.75 per cent. of RWAs and 12.25 per cent. of RWAs, respectively, *fully loaded*) on a consolidated level.

These ratios include the minimum Pillar 1 requirement (CET1 ratio of 4.50 per cent. of RWAs and 8 per cent. of RWAs of total capital), the Pillar 2 requirement (1.75 per cent.) and the capital conservation buffer (1.875 per cent.).

As of 31 December 2017, Ibercaja's capital ratios on a consolidated basis were above the ECB's minimum capital requirements for 2018.

Waiver of the application of prudential requirements on an individual basis

Since 31 March 2016, Ibercaja benefits from the Solo Waiver. Such waiver was requested by Ibercaja from the Bank of Spain by virtue of paragraph 6 of rule 5th of the Bank of Spain Circular 3/2008 of 22 May and based on the following reasons: (a) that there was no current or foreseen material, practical or legal impediment to the prompt transfer of own funds or repayment of liabilities to the parent company (i.e. Ibercaja) and (b) the procedures to measure, evaluate and control the risks for the supervision of the Group were referred to Ibercaja as the parent company.

The Solo Waiver granted by the Bank of Spain exempted Ibercaja from compliance, on an individual basis, with the equity requirements and limits for great risks. Consequently, for the same reasons described above, Ibercaja is exempted from the application of prudential requirements on an individual basis under Article 7 of CRR. As a result, Ibercaja does not have to comply with, nor calculate nor publish, any capital requirements or ratios on

an individual basis for so long as this derogation is in place, having the obligation to calculate and comply with capital requirements only at Group level. See "*—Risks related to the Preferred Securities—A Capital Event may occur if the Bank loses the Solo Waiver and the Bank may therefore elect to redeem the Preferred Securities*".

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

Business overview of Ibercaja

Ibercaja focuses on the retail banking business. The Group's customer base includes households and corporate customers as well as public and private institutions. The Group has specific channels and differentiated products tailored to meet the requirements of the different customer segments. With the assistance of specialist units at Ibercaja's financial group (the "**Financial Group**"), Ibercaja offers, besides traditional banking services, other products such as insurance products, investment funds and pension plans. In particular, Ibercaja targets Small and Medium Enterprises ("**SMEs**") and personal and private banking customers.

The Issuer's business is divided into the following areas:

(i) Family Banking;

(ii) Personal Banking;

(iii) Private Banking

(iv) Corporate Banking;

(v) Retailers;

(vi) Institutional and other groups;

(vii) Agriculture sector; and

(viii) The Financial Group, comprising "Management of Investment Funds", "Management of Pension Plans", "Insurance Business" and "Leasing and Renting".

Family Banking

Households are the most relevant customer base and the main source of funds managed by the Group. They are the main users of the Group's lending and deposit activity. The branch network has concentrated its efforts on attracting new customers and consolidating the links with existing customers, developing products suitable to the needs of every segment according to their income brackets and family circumstances.

Personal Banking

Ibercaja offers a management model based on a personal manager who assists customers in their financial planning, advises them on their investments, and gives them detailed information on those products and services that best meet their needs. The Financial Group plays a major role in offering specific products, as does the private banking area by training personal customer managers and giving them investment advice.

Personal banking customers are the main target of the portfolio management agreements for investment funds.

In 2012, the Issuer was among the first in Europe to have its advisory service for Personal Banking customers certified as complying with the ISO 22222:2010 standard. In 2017, Ibercaja renewed that certification for the fifth year running.

The majority of managers assigned to this group of personal banking customers have a solid training acknowledged by well-known entities such as the European Financial Planning Association.

Private Banking

In March 2017, the portfolio management company, Ibercaja Patrimonios, S.G.C., S.A., was integrated into Ibercaja through a merger by absorption by which Ibercaja assumed the private banking activity.

The private banking service offers investment opportunities to high net worth customers, providing a specialised, personalised and quality service. Customers are provided with advice from a personal manager and access to all types of financial assets: securities admitted to trading on national or international markets, investment funds from Ibercaja or from other external suppliers, SICAVs, structured deposits, etc.

Corporate Banking

Developing the corporate banking area, especially in connection with SMEs, is one of the main strategic aims of the Group. The largest companies engaged in more complex operations are served by a team of corporate account managers. These are supported by managers at certain branches having a significant mass of SMEs customers. The role of this group of employees is to provide solutions to the companies and give them comprehensive financial advice.

Within its branch network, Ibercaja has six specific corporate centres with multi-task teams, aimed at improving the positioning of Ibercaja in this business segment through specialisation and readiness to satisfy the financial needs of companies.

The Issuer's corporate service offerings include financing of fixed assets and working capital, treasury management, insurance, leasing, factoring and hedging of interest rates.

Retailers

This area provides personalised and value-based management for store owners or self-employed workers, preferably in the services sector, defining appropriate commercial strategies and policies and designing specific offerings.

The Issuer has collaboration agreements with various provincial chambers of commerce, associations and employers' organisations to provide their members with financial services on advantageous terms.

Institutional and other groups

Ibercaja cooperates with public and private authorities at national and regional levels. This gives the Issuer access to this source of business and, at the same time, helps other customers in their dealings with the public authorities.

In the public sector, Ibercaja cooperates with central, regional and local administrations under financing agreements, youth programmes and sponsorships. In addition, Ibercaja is actively engaged in the introduction and dissemination of the electronic administration and has agreements in place with different entities for the collection and management of taxes, handling of university enrolments, etc.

The Issuer also develops a range of personalised services for private sector groups, including professional associations, members of the civil service, owners' associations and employees of large companies as well as members of condominium activities. In addition, the Issuer has entered into agreements with mutual guarantee companies (*Sociedades de Garantía Recíproca*) from different territories in order to bring financing closer to SMEs.

Agriculture sector

The Issuer has a strong presence in primarily farming areas within its traditional territory (the autonomous regions of Aragón and La Rioja, and the provinces of Guadalajara, Burgos and Badajoz) and thus has a range of products and services for farmers that has grown gradually over the years under agreements made with major operators and concerned agencies.

Ibercaja assists farmers engaged in agriculture and livestock breeding by applying for public-sector aid in the framework of the European Common Agricultural Policy, advising them on how to apply for all the aid they are entitled and offering them advances in some cases.

At a time when the public authorities have reduced the aid provided to farmers in the form of insurance premium discounts, Ibercaja has marketed farm insurance policies covering the risks of farming, farm machinery, multi-risk livestock insurance, amongst other.

In addition, Ibercaja has entered into several agreements with the main players in the agro-food industry: cooperatives, farming organisations, regional departures of agriculture, etc. to create jobs for young farmers, improve farms and develop rural areas to revitalise the territory.

The Financial Group

The Financial Group was incorporated in 1988 and is wholly-owned by the Issuer. Its member companies are specialised in investment funds, savings and pension plans, bancassurance and leasing-renting.

The Financial Group offers a range of products aimed at both retail and corporate customers. These products are marketed through the Ibercaja branch network to supplement the banking services offered by the Issuer.

Management of Investment Funds

Ibercaja Gestión is the Financial Group's manager of investment funds.

The portfolio of Ibercaja Gestión includes a range of funds adapted to particular market circumstances and investor risk profiles.

In the last months, and due to low interest rates, there has been a slight increase in equity funds, but still to a low percentage of the total funds, 16.61 per cent. as of 31 December 2017. The bulk still corresponds to fixed income funds, 43.26 per cent. of the total funds as of 31 December 2017. The rest is distributed between dynamic funds (14.96 per cent. as of 31 December 2017), mixed funds (13.26 per cent. as of 31 December 2017), global funds (6.26 per cent. as of 31 December 2017) and guaranteed funds (5.65 per cent. as of 31 December 2017).

Ibercaja Gestión offers fund portfolio management agreements. Customers benefit from a diversified basket of suitable investment funds selected according to the customer's risk profile. Ibercaja Gestión also manages SICAVs.

Management of Pension Plans

Ibercaja Pensión manages assets, under plans established by employers or by individuals.

Ibercaja Pensión offers (i) fixed-income plans; (ii) mixed fixed-and-variable income plans; (iii) variable-income plans; (iv) global plans; and (v) guaranteed plans account.

Regarding plans established by employers for their employees, these include plans for major groups such as the employees of Endesa, S.A., Bank of Spain, public authorities of Aragón, and local authorities of some major cities elsewhere in Spain.

Ibercaja Pensión entered into an agreement to observe the United Nations Principles for Responsible Investment ("**UNPRI**"), the main set of international rules in this field. The purpose of UNPRI is for savers, in the process of choosing the assets in which to invest, to take into account environmental protection, social and good corporate governance criteria. UNPRI are also aimed at ensuring that the investment policies of institutional investors contribute to sustainable economic development.

Insurance Business

The Financial Group's insurance business is carried on through various companies that operate in the life and non-life branches.

Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U., specialised in bancassurance, focuses on underwriting savings and investment insurance as well as on risk life insurance products that will be distributed through the branch network. It has a range of insurance products including systematic savings policies as well as savings and investment insurance, life annuities and temporary annuities, individual systematic savings plans (PIAS), long-term individual savings policies (SIALP), insured benefit plans and other products.

Ibercaja Mediación de Seguros, S.A.U. engages in general insurance brokerage. It markets risk insurance for private individuals and companies, which are distributed through the branch network. The Issuer has an exclusive distribution agreement with Caja de Seguros Reunidos, Compañia de Seguros y Reaseguros, S.A. – CASER– in the non-life segment, distributing mainly car policies and home owner policies.

Leasing and Renting

Ibercaja Leasing y Financiación, S.A. ("**Ibercaja Leasing**") specialises in financing businesses through leasing and renting operations. It provides the branch network with specific products to enable SMEs and professionals to finance investments in fixed assets for themselves and to use equipment under operating leases. Ibercaja Leasing enters into agreements for vehicles, machinery, real estate, electronic data processing equipment and furniture.

Multi-channel strategy

The Issuer's multi-channel strategy is aimed at bringing services closer to customers so that they can use them at any place and time. The objective is to integrate the new channels with the traditional ones and ensure an ongoing and trusting relationship through personal contact. New contents and technological innovations are regularly being added so that remote banking services can be accessed through different devices such as tablets and smartphones.

e-Banking

Ibercaja offers its customers access to online services and products through several distance channels. Customers can operate by Internet through *Ibercaja Directo* as well as by mobile telephones, through the Ibercaja mobile banking application.

Ibercaja Directo is the Group's online banking platform. Different options are provided to each customer segment, with specific versions for retail and business customers, young people and stores.

The Ibercaja commercial public website (www.ibercaja.es) is another customer service distance channel. It displays the commercial offers of products and services and has a space for interaction with visitors where further information is made available through comparative tables as well as simulators, and where visitors can subscribe to alerts and bulletins.

The launch of the Ibercaja mobile banking application is the first development of Ibercaja in association with Microsoft. The new design facilitates browsing, optimises existing transactions, allowing faster and simpler

use, and includes other alternatives such as loan requests, purchase financing, card limit changes and card activation. In 2017, a personal finance management software was incorporated which helps investors to speed up their financial management. The final result is highly satisfactory and the rate of growth in new users has increased significantly.

The Ibercaja Pay application has been upgraded to complement the mobile banking application. It allows the integration of the purchase process in physical stores and payment between individuals (P2P) through the interbank system, Bizum.

Self-service and payment methods

Ibercaja has an extensive network of self-service terminals that allow customers to carry out usual transactions such as dispensing cash and providing information on account balances or movements, paying bills, activating cards, recharging mobile phones and buying tickets.

In the last years, Ibercaja has standardised the ATM network, whose number has increased to 1,475 terminals as of 31 December 2017, with a market share of 2.86 per cent. (Source: *Bank of Spain*).

Bank cards and point of sale terminals

Ibercaja has 1.5 million cards in circulation and in use as of 31 December 2017 with which nearly 116 million transactions (with a total value of €6,500 million) were carried out in 2017. The market share of the Issuer in this business segment is 2.65 per cent. (Source: *Bank of Spain*).

The Group has 57,487 point of sale terminals at stores throughout Spain as of 31 December 2017. The terminal is particularly suitable for self-employed individuals and professionals who are required to deliver services on the go.

Branch network

The Issuer has an extensive branch network. This is the basic tool, supplemented with alternative channels, through which the Issuer deals with its customers.

The Group has its main operations in its traditional territory (the autonomous regions of Aragón and La Rioja, and the provinces of Guadalajara, Burgos and Badajoz), where 64 per cent. of the branch network is concentrated and 60 per cent. of the turnover is generated. The Group has also a presence in other areas of economic importance such as Madrid and the Mediterranean area.

The Group had 1,151 branches as of 31 December 2017 in Spain. The breakdown of the commercial network by Autonomous Community as of 31 December 2017 is as follows: 407 points of sale in Aragón, 186 in Madrid, 107 in Extremadura, 100 in La Rioja, 90 in Catalonia, 64 in Castilla la Mancha, 81 in Castilla y León, 55 in Valencia, 30 in Andalucía and 31 in other autonomous communities. Out of the 1,151 branches, 41 are expected to be closed by June 2018 due to the collective redundancies (see "*—Recent Events—Collective redundancies*").

The geographical breakdown of the carrying amount of risks, including loans and advances, debt securities, equity instruments, trading derivatives, hedge derivatives, shares and contingent risks, is as follows: Aragón (€10,863 million); Madrid (€14,349 million); Catalonia (€3,149 million); Andalucía (€2,152 million), Castilla y León (€1,770 million), Castilla la Mancha (€1,797 million) and rest of Spain (€4,512 million).

Administrative, management and supervisory bodies

Board of Directors

The table below sets forth, at the date of this Prospectus, the names of the members of the Board of Directors of the Issuer, the respective dates of their appointment, their positions within the Issuer and their membership type:

Name	First appointment	Last appointment	Appointment expiration date	Title	Category
Mr. José Luis Aguirre Loaso	22/09/2011	24/02/2017	24/02/2022	Chairman	Proprietary(1)
Mr. Jesús Máximo Bueno Arrese	22/09/2011	24/02/2017	24/02/2022	First Vice Chairman	Proprietary(1)
Mr. José Ignacio Mijangos Linaza	29/10/2015	29/10/2015	29/10/2020	Second Vice Chairman	Proprietary(2)
Mr. Víctor Manuel Iglesias Ruiz	28/01/2015	28/01/2015	28/01/2020	Chief Executive Officer	Executive
Ms. Gabriela González-Bueno Lillo	24/07/2013	24/07/2013	24/07/2018	Director	Independent
Mr. Jesús Solchaga Loitegui	24/07/2013	24/07/2013	24/07/2018	Director	Independent
Mr. Juan María Pemán Gavín	24/07/2013	24/07/2013	24/07/2018	Director	Proprietary(3)
Mr. Emilio Jiménez Labrador	28/10/2016	28/10/2016	28/10/2021	Director	Proprietary(4)
Mr. Vicente Evelio Cóndor López	27/01/2014	27/01/2014	27/01/2019	Director	Independent
Mr. Félix Longás Lafuente	30/08/2016	30/08/2016	30/08/2021	Director	Independent
Mr. Jesús Tejel Giménez	30/08/2016	30/08/2016	30/08/2021	Director	Independent
Mr. Luis Enrique Arrufat Guerra	30/08/2017	30/08/2017	30/08/2022	Director	Proprietary(1)
Ms. María Pilar Segura Bas	30/08/2017	30/08/2017	30/08/2022	Director	Other external(5)
Mr. Jesús Barreiro Sanz	22/09/2011	11/11/2014	11/11/2019	Secretary of the Board	Proprietary(1)

Notes:

(1) Shareholder represented: Fundación Bancaria Ibercaja.

(2) Shareholder represented: Caja Círculo Fundación Bancaria.

(3) Shareholder represented: Fundación Caja de Ahorros de la Inmaculada.

(4) Shareholder represented: Fundación Ordinaria Caja Badajoz.

Name	First appointment	Last appointment	Appointment expiration date	Title	Category

(5) Ms. María Pilar Segura Bas was an employee of the Bank. The 3-year period from the end of the employment relationship that the Spanish Companies Law establishes to qualify a person as an independent director has not yet elapsed and so Ms. María Pilar Segura Bas has the status of "Other external director".

The table below sets forth the names of those members of the Board of Directors of the Issuer with significant activities outside the Issuer as of the date of this Prospectus:

Director	Company	Title
Mr. José Luis Aguirre Loaso	CECA	Director
	Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A.	Director
Mr. Víctor Manuel Iglesias Ruiz	Cecabank, S.A.	Director
Mr. Jesús Solchaga Loitegui	Cerro Murillo, S.A.	Director
	Residencial Murillo, S.A.	Director
	Ibercaja Mediación de Seguros, S.A.	Director
Mr. Jesús Barreiro Sanz	Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.	Secretary
	Heraldo de Aragón, S.A.	Director

As of the date of this Prospectus, there are no conflicts of interest in relation to members of the Board of Directors of the Issuer between any duties owed to the Issuer and their private interests and other duties.

Delegated Committee

The Board of Directors has delegated all of its powers in favour of the Delegated Committee, except for those which cannot be delegated pursuant to the provisions of the Spanish laws or which cannot be delegated according to the provisions of the bylaws or the regulation of the Board.

As of the date of this Prospectus, the Delegated Committee is composed of the following directors:

Last Appointment	Name	Position
24/02/2017	Mr. José Luis Aguirre Loaso	Chairman
30/08/2016	Mr. Jesús Máximo Bueno Arrese	Vice Chairman
28/01/2015	Mr. Víctor Manuel Iglesias Ruiz	Member
30/08/2016	Mr. Vicente Evelio Cóndor López	Member
06/02/2014	Ms. Gabriela González-Bueno Lillo	Member
28/09/2016	Mr. Juan María Pemán Gavin	Member
11/11/2014	Mr. Jesús Barreiro Sanz	Secretary

Audit and Compliance Committee

According to the bylaws of the Issuer, the powers of the Audit and Compliance Committee are to (i) report, through its chairman and/or secretary, to the General Shareholders Meeting about the issues raised by shareholders on matters within its competence; (ii) monitor the effectiveness of internal control, internal audit and risk management systems, as well as discussing with the auditors any significant weaknesses found in the internal control system during the audit; (iii) monitor the preparation and presentation of regulated financial information; (iv) propose to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the auditor or audit firm; (v) establish appropriate relations with the auditor or audit firm to receive information about any issues that could jeopardise its independence, or any others related to the auditing process, as well as other communications that could be foreseen from legal or technical auditing standards, and then submit that information to the Audit and Compliance Committee for their consideration; (vi) issue annually, prior to the issuance of the audit report, a report stating an opinion about the independence of the auditor or the audit firm; and (vii) report to the Board of Directors, among other subjects, about the Bank's financial information of the that has to be periodically published, the acquisition of shares in companies which are resident in tax havens and any related-party transactions.

As of the date of this Prospectus, the Audit and Compliance Committee is composed of the following directors:

Last Appointment	Name	Position
25/01/2018	Mr. Vicente Evelio Cóndor López	Chairman
06/02/2014	Ms. Gabriela González-Bueno Lillo	Member
30/08/2016	Mr. Jesús Máximo Bueno Arrese	Member
28/01/2015	Mr. Juan María Pemán Gavin	Member
30/08/2016	Mr. Jesús Tejel Giménez	Member
04/10/2011	Mr. Jesús Barreiro Sanz	Secretary (non-Member)

Appointments Committee

According to the regulation of the Board of Directors, the Appointments Committee is entrusted with general powers to propose and report to the Board of Directors about any matters regarding appointments, evaluations and terminations of Board members.

As of the date of this Prospectus, the Appointments Committee is composed of the following directors:

Last Appointment	Name	Position
24/06/2015	Mr. Jesús Solchaga Loitegui	Chairman
22/12/2015	Mr. José Ignacio Mijangos Linaza	Member
30/08/2016	Mr. Félix Santiago Longás Lafuente	Member
01/03/2018	Ms. María Pilar Segura Bas	Member
28/01/2015	Mr. Jesús Barreiro Sanz	Secretary

Compensation Committee

According to the regulation of the Board of Directors, the Compensation Committee is entrusted with general powers to propose and report to the Board of Directors about any matters regarding compensation of Board members.

As of the date of this Prospectus, the Compensation Committee is composed of the following directors:

Last Appointment	Name	Position
24/06/2015	Mr. Jesús Solchaga Loitegui	Chairman
22/12/2015	Mr. José Ignacio Mijangos Linaza	Member
30/08/2016	Mr. Félix Santiago Longás Lafuente	Member
01/03/2018	Ms. María Pilar Segura Bas	Member
28/01/2015	Mr. Jesús Barreiro Sanz	Secretary

Large Exposures and Solvency Committee

According to the regulation of the Board of Directors and notwithstanding other duties assigned by the Board, the Large Exposures and Solvency Committee have the following basic responsibilities: (i) proposing to the Board of Directors setting limits by type of risk and business, including credit risk, concentration, such as market risk, liquidity risk, interest rate risk and currency risk; (ii) reporting, prior to its approval by the Board, the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS) of Ibercaja, ensuring that both of them are consistent with other policies and strategic frameworks of Ibercaja; (iii) analysing and evaluating the risk management (including tax risk) policies of the Group in terms of risk profile (expected loss) and profitability, and analysing the Groups exposures by business, customer and sector segments; (iv) analysing and reviewing the risk oversight systems of the Group; (v) proposing to the Board of Directors, when deemed appropriate, the measures to mitigate the impact of the risks that have been identified; (vi) analysing and assessing the level of equity and its forecasts over time, given different scenarios, and proposing measures it deems appropriate in order to strengthen the solvency of the Issuer, reporting on the Capital Adequacy Policy; and (vii) inform about the funding plan of Ibercaja and its amendments.

As of the date of this Prospectus, the Large Exposures and Solvency Committee is composed of the following directors:

Last Appointment	Name	Position
25/01/2018	Ms. Gabriela González-Bueno Lillo	Chairman
28/01/2015	Mr. Jesús Máximo Bueno Arrese	Member
30/08/2016	Mr. Jesús Tejel Giménez	Member
27/09/2017	Ms. María Pilar Segura Bas	Member
01/03/2018	Mr. Vicente Evelio Cóndor López	Member
06/02/2014	Mr. Jesús Barreiro Sanz	Secretary (non-Member)

Strategy Committee

According to the regulation of the Board of Directors, the Strategy Committee focuses on reporting to the Board about the strategic policy of Ibercaja, ensuring that there is a specific organisation for its implementation. Notwithstanding other duties assigned by the Board, the Strategy Committee holds the following responsibilities: (i) to inform about the strategic plan of Ibercaja, monitoring it and reporting to the Board of Directors; (ii) to report the annual budget of Ibercaja; (iii) to report the strategic direction of the specific and overall goals of Ibercaja related to the strategic plan and its annual budget; (iv) to report to the Board of Directors the economic outlook assumptions used to determine the stress scenarios hypotheses that are used on capital planning; (v) to report the recovery plan; (vi) to report to the Board of Directors on issues of strategic importance, including those that may affect the shareholder structure or those that may open new national or international financial markets; (vii) to inform about the outsourcing policy of services and activities; (viii) to

inform about the policy to approve new products while developing new markets, products or services, and significant changes in those already existing; and (ix) to review and report to the Board of Directors, on an annual basis, about the adequacy of the operating structures of Ibercaja to its social mission and strategic policy.

As of the date of this Prospectus, the Strategy Committee is composed of the following directors:

Last Appointment	Name	Position
28/01/2015	Mr. José Luis Aguirre Loaso	Chairman
28/10/2016	Mr. Emilio Jiménez Labrador	Member
30/08/2016	Mr. Félix Santiago Longás Lafuente	Member
30/08/2016	Mr. Luis Enrique Arrufat Guerra	Member
01/03/2018	Mr. Jesús Solchaga Loitegui	Member
28/01/2015	Mr. Jesús Barreiro Sanz	Secretary (non-Member)

Management Team

The following table specifies the management team of the Issuer as of the date of this Prospectus:

Last Appointment	Name	Position
28/01/2015	Mr. Víctor Manuel Iglesias Ruiz	Chief Executive Officer
29/10/2014	Mr. Francisco Serrano Gill de Albornoz	Deputy General Manager-General Secretary
25/10/2013	Mr. Luis Miguel Carrasco Miguel	Deputy General Manager-Chief of Real Estate Business
01/03/2017	Mr. José Ignacio Oto Ribate	General Deputy Head-Chief Branch Network Officer
01/03/2017	Mr. Antonio Martínez Martínez	General Deputy Head-Chief Financial Officer
01/03/2017	Ms. María Raquel Martínez Cabañero	General Deputy Head-Chief Credit Risk Officer
01/03/2017	Mr. José Palma Serrano	General Deputy Head-Chief Technology Officer
01/03/2017	Ms. María Teresa Fernández Fortún	Deputy Head-Chief of Human Resources Officer
01/03/2017	Mr. Ignacio Torre Solá	Chief Marketing Officer and Digital Strategy
01/03/2017	Mr. Rodrigo Galán Gallardo	Deputy Head-Chief of Financial Group
01/03/2017	Ms. Ana Jesús Sangrós	Chief Analytics Officer
01/03/2017	Mr. Ángel Serrano Villavieja	Deputy Head-Chief Audit Officer

The table below sets forth the names of those members of the management team of the Issuer with significant activities outside the Issuer as of the date of this Prospectus.

Name	Company	Position
Mr. Luis Miguel Carrasco Miguel	Cerro Murillo, S.A.	Director
	Residencial Murillo, S.L.	Director
	Inmobinsa, Inversiones Inmobiliarias	Director
Ms. María Teresa Fernández Fortún	Ibercaja Gestión S.G.I.I.C., S.A.	Director
Mr. Rodrigo Galán Gallardo	Ibercaja Gestión S.G.I.I.C., S.A.	Director
	Ibercaja Leasing y Financiación, S.A., E.F.C.	Director
	Ibercaja Mediación de Seguros, S.A.	Chairman
	Ibercaja Pensión, S.A.U.	Director
	Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U.	Chairman
	CAI Seguros Generales de Seguros y Reaseguros, S.A.	Director
Ms. María Raquel Martínez Cabañero	Ibercaja Leasing y Financiación, S.A., E.F.C.	Chairwoman
	Ibercaja Pensión, S.A.U.	Director
Mr. Antonio Martínez Martínez	Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U.	Director
	Heraldo de Aragón, S.A.	Director
Mr. José Ignacio Oto Ribate	Ibercaja Gestión S.G.I.I.C., S.A.	Director
	Ibercaja Leasing y Financiación, S.A., E.F.C.	Director
	Ibercaja Mediación de Seguros, S.A.	Director
	Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U.	Director
	Ibercaja Pensión, S.A.U.	Director
	Viacajas, S.A.	Director
	E6K Servicios de Valor Añadido, S.L.	Director
	Sistemas de Tarjetas y Medios de Pago, S.A.	Director
	Servicios a Distancia IBD, S.L.	Director

	Aramón Montañas de Aragón, S.A.	Director
	Formigal, S.A.U.	Director
	Nieve de Teruel, S.A.	Director
	Panticosa Turística, S.A.	Director
Mr. José Palma Serrano	Ibercaja Gestión S.G.I.I.C., S.A.	Director
	Ibercaja Leasing y Financiación, S.A., E.F.C.	Director
	Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U.	Director
	Radio Huesca, S.A.	Director
	Servicios a Distancia IBD, S.L.	Director
	Mastercajas, S.A.	Director
	Sociedad Española de Sistemas de Pago Iberpay	Director
	Publicaciones y Ediciones del alto Aragón, S.A.	Director
Ms. Ana Jesús Sangrós Orden	Ibercaja Mediación de Seguros, S.A.	Director
	Ibercaja Gestión S.G.I.I.C., S.A.	Director
	Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U.	Director
Mr. Francisco Serrano Gill de Albornoz	Ibercaja Gestión S.G.I.I.C., S.A.	Chairman
	Ibercaja Gestión S.G.I.I.C., S.A.	Chairman
	Ibercaja Pensión, S.A.U.	Chairman
	Heraldo de Aragón, S.A.	Director
	Aramón Montañas de Aragón, S.A.	Director

As of the date of this Prospectus, there are no conflicts of interest in relation to members of the management team of the Issuer between any duties owed to the Issuer and their private interests and other duties.

The business address of each member of the Board of Directors and the members of the Issuer's management team mentioned above is Plaza Basilio Paraíso, 2, 50008 Zaragoza (Spain).

Distributable Items

The following table summarises shows the Distributable Items of the Issuer's as of December 2016 and 31 December 2017:

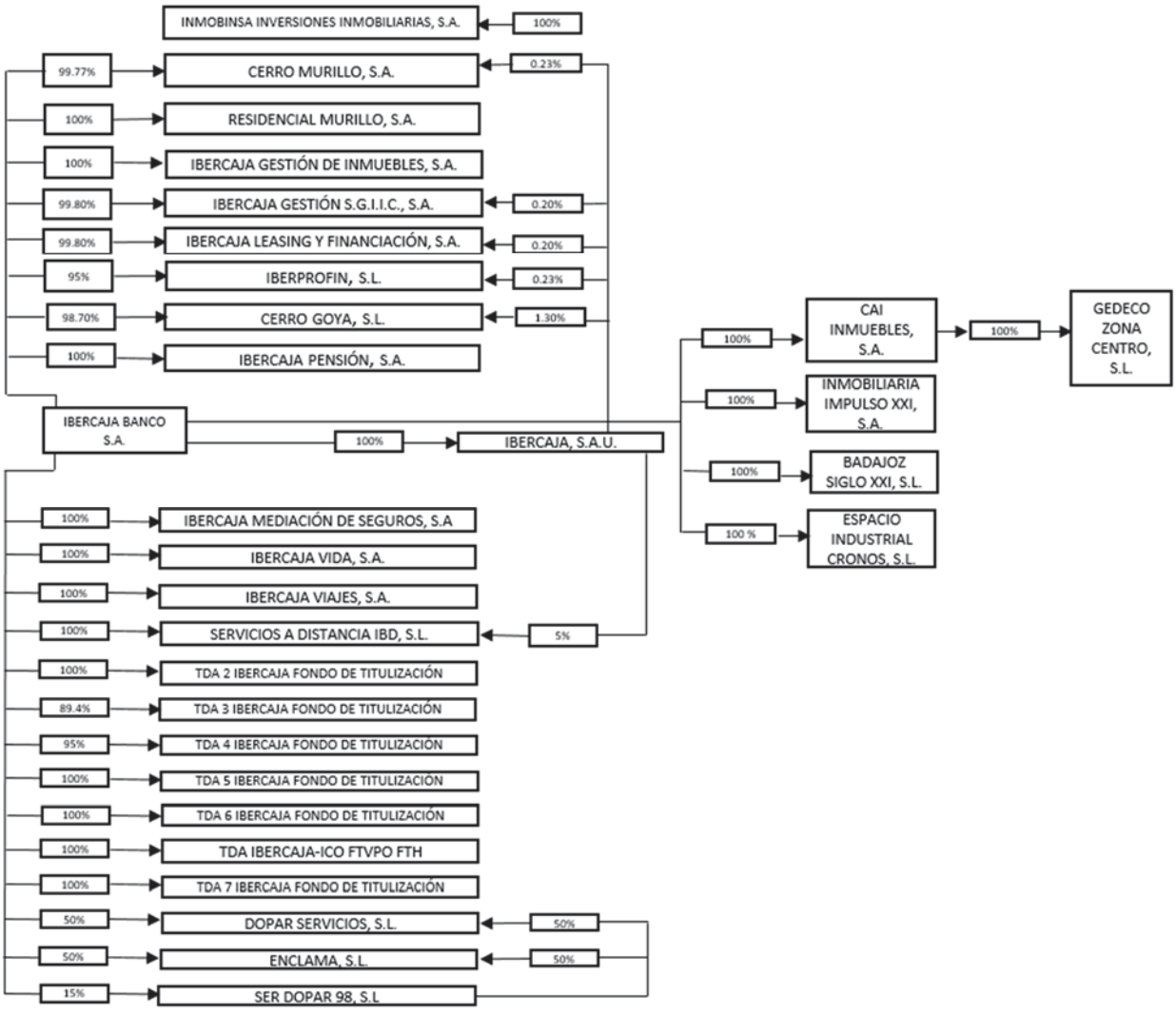
	31 December	
	2017	**2016**
	(€)	
Distributable items of the Bank	**217,155,653.30**(1)	**160,994,420.99**

Note:

(1) The Board of Directors held on 1 March 2018 proposed a dividend distribution of €17.5 million. This distribution will have to be approved by the General Meeting of Shareholders.

Organisational structure

The following chart summarises the companies making up the Group and the Issuer's ownership of such companies as of 31 December 2017:



Capital structure

As of the date of this Prospectus, the Issuer's share capital is €2,144,275,998 divided into 2,144,275,998 fully subscribed and paid ordinary shares with a par value of €1 each. All shares are of the same class with the same rights attached.

Major shareholders

As of the date of this Prospectus, the Issuer's share capital is owned as follows:

Shareholder	% of shares
Fundación Bancaria Ibercaja	87.80
Fundación Caja de Ahorros de la Inmaculada de Aragón	4.85
Fundación Ordinaria Caja Badajoz	3.90
Caja Círculo Fundación Bancaria	3.45

As of the date of this Prospectus, Fundación Bancaria Ibercaja is the major shareholder of the Issuer with a shareholding of 87.80 per cent. In accordance with Article 43 of Law 26/2013, of 27 December, on savings banks and banking foundations, Fundación Bancaria Ibercaja elaborated a protocol on the management of its participation in the Issuer (*Protocolo de Gestión de la Participación Financiera de la Fundación Bancaria Ibercaja en Ibercaja Banco, S.A.*). Such protocol governs the following aspects: (i) the strategic basic criteria which govern the management of the participation of the Fundación Bancaria Ibercaja in the Issuer; (ii) the relationship between the Fundación Bancaria Ibercaja and the governing bodies of the Issuer; (iii) the general criteria applicable to the transactions between the Fundación Bancaria Ibercaja and the Issuer and mechanisms to avoid potential conflicts of interests; (iv) the flow of information which allow the Fundación Bancaria Ibercaja and the Issuer to prepare their respective financial statements and to comply with their reporting obligations; and (v) the principles of a potential collaboration of the Fundación Bancaria Ibercaja and the Issuer in matters of corporate responsibility.

As of the date of this Prospectus, the Issuer is not aware of any arrangement which may result in a change of control in the Issuer.

Legal and arbitration 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.

A detailed information about the legal and regulatory risks that the Issuer may be exposed to in the near future can be found in "*The Group is exposed to risk of loss from legal and regulatory claims*" under Risk Factors section.

Overview financial information

The table below includes the consolidated balance sheets of the Group as of 31 December 2017 and 2016:

	31 December	
	2017	**2016**
	(€ thousand)	
ASSETS		
Cash and deposits at central banks and other demand deposits	**3,512,477**	**1,005,986**
Financial assets held for trading	**9,378**	**33,124**
Derivatives	9,054	32,435
Debt securities	324	689
Memorandum item: Loaned or pledged	—	—
Financial assets designated at fair value through profit or loss	**52,247**	**48,997**
Equity instruments	41,632	44,384
Debt securities	10,615	4,613
Memorandum item: Loaned or pledged	—	—
Available-for-sale financial assets	**10,849,926**	**11,476,251**
Equity instruments	325,681	434,891
Debt securities	10,524,245	11,041,360
Memorandum item: Loaned or pledged	2,150,225	2,580,862
Loans and receivables	**35,019,799**	**36,019,328**
Debt securities	2,296,675	2,602,217
Loans and advances	32,723,124	33,417,111
Credit institutions	414,087	470,055
Customers	32,309,037	32,947,056
Memorandum item: Loaned or pledged	3,499,880	6,064,814
Held-to-maturity investments	**—**	**4,545,574**
Memorandum item: Loaned or pledged	—	2,520,964
Derivatives-hedge accounting	**187,456**	**285,111**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**—**	**—**
Investments in subsidiaries, joint business ventures and associates	**105,313**	**135,798**
Jointly-controlled entities	27,884	29,684
Associates	77,429	106,114
Assets under insurance and reinsurance contracts	**395**	**514**
Tangible assets	**1,029,414**	**1,092,388**
Property, plant and equipment	640,977	656,940

	31 December	
	2017	**2016**
	(€ thousand)	
For own use	615,429	633,473
Assigned under operating lease	25,548	23,467
Investment property	388,437	435,448
Of which: leased out under operating leases	183,232	209,719
Memorandum item: Acquired under finance lease	—	—
Intangible assets	**199,680**	**198,837**
Goodwill	144,934	144,934
Other intangible assets	54,746	53,903
Tax assets	**1,338,472**	**1,397,012**
Current tax assets	25,054	24,351
Deferred tax assets	1,313,418	1,372,661
Other assets	**249,656**	**208,023**
Inventories	225,551	244,650
Other	24,105	35,373
Non-current assets and disposal groups of items classified as held for sale	**552,756**	**656,931**
Total Assets	**53,106,969**	**57,175,874**

	31 December	
	2017	**2016**
	(€ thousand)	
LIABILITIES		
Financial liabilities held for trading	**7,301**	**31,255**
Derivatives	7,301	31,255
Financial liabilities designated at fair value through profit or loss	—	—
Memorandum items: Subordinated liabilities	—	—
Financial liabilities at amortised cost	**42,270,895**	**46,352,735**
Deposits	39,666,819	43,499,051
Central banks	3,353,508	3,366,566
Credit institutions	1,236,216	3,127,312
Customers	35,007,095	37,005,173
Debt securities issued	1,827,266	2,147,252
Other financial liabilities	776,810	706,432
Memorandum items: Subordinated liabilities	631,751	857,260
Derivatives-hedge accounting	**106,702**	**176,172**
Changes in fair value of hedged items in a portfolio with hedged interest rate risk	**11,054**	**16,022**
Liabilities under insurance or reinsurance contracts	**7,019,204**	**6,858,907**
Provisions	**372,779**	**411,329**
Pension and other post-employment defined benefit obligations	120,751	139,820
Other long-term employee remuneration	3,863	4,999
Lawsuits and litigation for outstanding taxes	12,814	11,540
Commitments and guarantees given	31,656	35,328
Other provisions	203,695	219,642
Tax liabilities	**191,630**	**231,874**
Current tax liabilities	3,152	1,454
Deferred tax liabilities	188,478	230,420
Other liabilities.	**128,112**	**120,820**
Liabilities included in disposal groups of items classified as held for sale	—	—
Total liabilities	**50,107,677**	**54,199,114**

	31 December	
	2017	**2016**
	(€ thousand)	
EQUITY		
Shareholders' funds	**2,854,915**	**2,753,123**
Capital	2,144,276	2,144,276
Paid in capital	2,144,276	2,144,276
Called-up capital	—	—
Memorandum items: Uncalled capital	—	—
Share premium	—	—
Equity instruments issued other than capital	—	—
Equity component of compound financial instruments	—	—
Other equity instruments issued	—	—
Other equity items	—	—
Retained earnings	418,783	311,648
Revaluation reserves	3,321	3,329
Other reserves	150,168	150,973
Reserve or accumulated losses on investments in joint business ventures and associates	(64,260)	(63,455)
Other	214,428	214,428
(Treasury shares)	—	—
Profit/(loss) attributable to parent company's owners	138,367	142,897
(Interim dividend)	—	—
Other accumulated comprehensive results	**144,077**	**223,330**
Items that will not be reclassified to profit or loss	(11,607)	(21,758)
Actuarial gains/(losses) in defined benefit pension plans	(11,607)	(21,758)
Non-current assets and disposal groups of items classified as held for sale	—	—
Share of other recognised income and expenses in investments in joint business ventures and associates	—	—
Other valuation adjustments	—	—
Items that may be reclassified to profit or loss	155,684	245,088
Hedging of net investment in foreign transactions (effective portion)	—	—
Currency translation	—	—
Hedging derivatives. Cash flow hedges (effective portion)	(1,169)	—
Available-for-sale financial assets	157,203	245,648
Debt instruments	85,822	166,637

	31 December	
	2017	**2016**
	(€ thousand)	
Equity instruments	71,381	79,011
Non-current assets and disposal groups of items classified as held for sale	—	—
Share of other recognised income and expenses in investments in joint business ventures and associates	(350)	(560)
Non-controlling interests	**300**	**307**
Other accumulated comprehensive results	—	—
Other items	300	307
Total equity	**2,999,292**	**2,976,760**
Total equity and liabilities	**53,106,969**	**57,175,874**
Memorandum items: Off-balance-sheet exposures	—	—
Guarantees granted	742,827	640,174
Contingent commitments granted	3,088,704	3,190,784

The table below includes the consolidated income statements of the Group for the years ended 31 December 2017 and 2016:

	31 December	
	2017	**2016**
	(€ thousand)	
Interest income	**695,983**	**832,867**
(Interest expense)	**134,827**	**265,664**
Expenses on share capital repayable on demand	**—**	**—**
Net interest income	**561,156**	**567,203**
Dividend income	**12,797**	**10,913**
Share of profit/(loss) of equity-accounted entities	**1,303**	**11,701**
Fee and commission income	**379,967**	**349,768**
(Fee and commission expense)	**14,932**	**10,969**
Net gains(losses) on financial assets and liabilities		
Gain/(loss) on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	148,273	152,621
Gain/(loss) on financial assets and liabilities held for trading, net	971	15,148
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	1,169	573
Gain/(loss) from hedge accounting, net	2,111	1,185
Net exchange differences	**1,334**	**1,259**
Other operating income	**155,637**	**118,212**
(Other operating expenses)	**85,282**	**87,540**
Income from assets under insurance and reinsurance contracts	**1,150,124**	**1,330,367**
(Expenses from liabilities under insurance or reinsurance contracts)	**1,150,414**	**1,330,667**
Gross income	**1,164,214**	**1,129,774**
(Administrative Expenses)	**688,194**	**599,858**
(Personnel expense)	458,588	384,958
(Other administration expenses)	209,606	214,900
(Depreciation)	**50,806**	**52,347**
(Provisions or (-) reversal of provisions)	**(2,628)**	**96,019**
(Impairment or (-) reversal of impairment on financial assets not carried at fair value though profit and loss)	**185,189**	**290,663**
(Financial assets carried at cost)	11,770	13,170
(Available-for-sale financial assets)	1,552	11,164
(loans and other receivables)	171,873	266,323
(Held-to-maturity investments)	(6)	6

	31 December	
	2017	**2016**
	(€ thousand)	
Income from operating activities	**262,653**	**90,887**
(Impairment or (-) reversal of impairment of investments in joint business ventures or associates)	**129**	**—**
(Impairment or (-) reversal of impairment in non-financial assets)	**16,075**	**3,141**
(Tangible assets)	(2,375)	(728)
(Intangible assets)	—	189
(Other)	18,450	3,680
Gains(losses) on derecognition of non-financial assets and shareholdings	**8,068**	**5,332**
Of which: Investments in subsidiaries, joint business ventures and associates	6,858	6,070
Negative goodwill recognised on the income statement	**—**	**—**
Gains(losses) from non-current assets and disposal group of items classified as held for sale not qualifying as discontinued operations	**(71,786)**	**(22,308)**
Profit/(loss) before taxes from continuing operations	**182,731**	**70,770**
(Expense or (-) income from taxes on income from continuing operations)	**44,373**	**(72,292)**
Profit/(loss) after tax from continuing operations	**138,358**	**143,062**
Profit/(loss) after taxes from discontinued activities	**—**	**—**
Profit/(loss) for the year	138,358	143,062
Attributable to non-controlling interest	(9)	165
Attributable to the parent company´s owners	138,367	142,897

In addition to the above and to be read in conjunction with the audited consolidated annual accounts incorporated by reference in this Prospectus, it is worth mentioning that the Group's recurring revenues amounted to €927,525 thousand in the year ended 31 December 2017 (which represented a 2.23 per cent. increase in respect of the year ended 31 December 2016, where they amounted to €907,261 thousand). 65 per cent. of such Group recurring revenues for the year ended 31 December 2017 corresponded to banking business, 14 per cent. to mutual funds, 13 per cent. to long-term saving products and 9 per cent. to risk insurance. Non-banking commissions (mutual funds, pension funds and risk insurance) registered a sound evolution, with the net fee income of the Group increasing by 7.74 per cent. in 2017 (from €340,058 thousand in the year ended 31 December 2016 to €366,369 thousand in the year ended 31 December 2017) and the net fee income-average total assets ratio reaching a 0.66 per cent. in 2017 (while it stood at 0.59 per cent. in 2016). At the same time, Ibercaja's reliance on fixed income portfolio revenues has been reduced in the last few years and the fixed income portfolio contribution normalised (the fixed income-interest income ratio of the Group decreased by 868 basis points from 21.54 per cent. as of 31 December 2016 to 12.86 per cent. as of 31 December 2017).

The increase in recurring revenues involved an improvement in the recurring revenues-average total assets ratio by 12 basis points, reaching 1.68 per cent. as of 31 December 2017 (1.56 per cent. as of 31 December 2016), despite falling Euribor levels.

In turn, the Group's recurring costs have decreased from €652,205 thousand in the year ended 31 December 2016 to €647,140 thousand in the year ended 31 December 2017.

The diversification of revenues together with cost reduction measures have allowed the Group to increase its recurring profit before provisions by close to 10 per cent. in the year ended 31 December 2017 (from €255,056 thousand in the year ended 31 December 2017 to €280,385 thousand as of 31 December 2017).

Recurring revenues, net fee income, net fee income-average total assets ratio, fixed income-interest income ratio, recurring revenues-average total assets ratio, recurring costs and recurring profit before provisions are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of the Issuer—Alternative Performance Measures*".

Alternative performance measures

This Prospectus (and the documents incorporated by reference in this Prospectus) contains certain management measures of performance or alternative performance measures ("**APMs**"), which are used by management to evaluate the Group's overall performance or liquidity. These APMs are not audited, reviewed or subject to review by Ibercaja's auditors and are not measures required by, or presented in accordance with, International Financial Reporting Standards as adopted by the EU ("**IFRS-EU**"). Accordingly, these APMs should not be considered as alternatives to any performance or liquidity measures prepared in accordance with IFRS-EU. Many of these APMs are based on Ibercaja's internal estimates, assumptions, calculations and expectations of future results and there can be no guarantee that these results will actually be achieved. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by Ibercaja, may not be comparable to other similarly titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS-EU, as indications of operating performance or as measures of the Group'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 audited consolidated annual financial statements incorporated by reference in this Prospectus.

Ibercaja believes that the description of these APMs in this Prospectus follows and complies with the "ESMA Guidelines on Alternative Performance Measures" dated 5 October 2015.

The following are the APMs used in this Prospectus and included in the information incorporated by reference.

These measures are used in the Bank's planning, operational and financial decision-making. These measures are commonly used in the finance sector as indicators to monitor institutions' assets, liabilities and economic/financial positions.

Customer spread: difference between the average yield on the loan portfolio and the cost of retail deposits. The customer spread is an indicator of the profitability of the Group's purely retail banking activity.

	Dec 17	Dec 16
(+) Yield on loans to customers	1.44%	1.51%
Interest income from the portfolio of loans to customers recognised in the year, with management criteria, divided by the average balance of loans to customers		
(-) Cost of retail funds	0.07%	0.24%
Interest expenses on retail deposits on the balance sheet recognised in the year, with management criteria, divided by the average balance of retail deposits		
Customer spread (%)	**1.37%**	**1.27%**

Source: Bank's internal information with management criteria.

Net profit from financial assets and liabilities: sum of gains/(losses) on the derecognition of financial assets and liabilities not valued at fair value through profit or loss, gains/(losses) on financial assets and liabilities held for trading, gains/(losses) on financial assets and liabilities valued at fair value through profit or loss and gains/(losses) derived from hedge-accounting. The net profit from financial assets and liabilities is a measure of the profits gained by the Group that are related to the financial activity but cannot be considered as recurring profit.

	Dec 17	Dec 16
	(€ thousand)	
(+) Gains/(losses) on the derecognition of financial assets and liabilities not valued at fair value through profit or loss	148,273	152,621
(+) Gains/(losses) on financial assets and liabilities held for trading	971	15,148
(+) Gains/(losses) on financial assets and liabilities valued at fair value through profit or loss	1,169	573
(+) Gains/(losses) derived from hedge-accounting	2,111	1,185
Net profit from financial assets and liabilities	**152,524**	**169,527**

Source: Consolidated public income statement.

Other operating income and expenses: sum of the net amounts of other operating income and expenses and income and expenses from assets and liabilities under insurance or reinsurance contracts. It measures income and expenses that are not derived from financial activities but are related to the regular activities of the Group.

	Dec 17	Dec 16
	(€ thousand)	
(+) Other operating income	155,637	118,212
(-) Other operating expenses	85,282	87,540
(+) Income from assets under insurance or reinsurance contracts	1,150,124	1,330,367
(-) Expenses from liabilities under insurance or reinsurance contracts	1,150,414	1,330,667

	Dec 17	Dec 16
	(€ thousand)	
Other operating income and expenses	**70,065**	**30,372**

Source: Consolidated public income statement.

Operating expenses: sum of personnel expenses, other administration expenses and depreciation/amortisation. It is a measure that shows the costs incurred by Group to carry out the daily financial activities.

	Dec 17	Dec 16
	(€ thousand)	
(+) Personnel expenses	458,588	384,958
(+) Other administration expenses	209,606	214,900
(+) Depreciation/Amortisation	50,806	52,347
Operating expenses	**719,000**	**652,205**

Source: Consolidated public income statement.

Cost-to-income ratio: total operating expenses divided by the gross margin. The cost-to-income ratio is used in the banking sector to measure the cost efficiency level of the Group.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Operating expenses (excluding collective redundancy costs*)	647,140	652,205
Denominator	Gross margin	1,164,214	1,129,774
=	**Cost to income ratio (%)**	**55.59%**	**57.73%**

Source: Consolidated public income statement and note 38 to the consolidated annual accounts. (€71,860 thousand).*

Profit before write-downs: gross margin less operating expenses (administration expenses and depreciation/amortisation). It shows the result of the Group without extraordinary gains or losses.

	Dec 17	Dec 16
	(€ thousand)	
(+) Gross margin	1,164,214	1,129,774
(-) Administration expenses	668,194	599,858
(-) Depreciation/amortisation	50,806	52,347
Profit before write-downs	**445,214**	**477,569**

Source: Consolidated public income statement.

Provisions, impairments and other write-downs: sum of provisions, impairment of financial assets not valued at fair value through profit or loss, impairment of investments in jointly-controlled entities or associates, impairment of non-financial assets and the portion of gains or losses from non-current assets and disposal groups held for sale that cannot be classified as discontinued operations which relates to impairment losses on

non-current assets held for sale. It provides the cost that the Group has incurred in order to show the fair value of its assets and liabilities in the balance sheet.

	Dec 17	Dec 16
	(€ thousand)	
(+) Provisions or (-) reversals of provisions	(2,628)	96,019
(+) Impairment or (-) reversals of impairment of financial assets not carried at fair value through profit and loss	185,189	290,663
(+) Impairment or (-) reversals of impairment of investments in joint business ventures or associates	129	-
(+) Impairment or (-) reversals of impairment of non-financial assets	16,075	3,141
(+) Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	—	—
Of which: impairment losses non-current assets for sale	65,213	23,313
Provisions, impairments and other write-downs	**263,978**	**413,136**

Source: Consolidated public income statement and note 42 to the consolidated annual accounts.

Cost of risk: percentage of write-downs associated with credit risk and real estate in relation to gross loans and advances to customers. The cost of risk is one of the main indicators used by the Group to monitor the status and evolution of the quality of credit risk incurred with customers and to assess the management of that risk.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Write-downs associated with credit risk and real estate assets	243,213	290,793
Denominator	Gross loans and advances to customers + foreclosed real estate assets	34,965,617	36,022,840
=	**Cost of risk (%)**	**0.70%**	**0.81%**

Source: Bank's internal information with management criteria.

Other gains and losses: sum of gains/(losses) on the derecognition of non-financial assets and equity interests and gains/(losses) on non-current assets and disposal groups held for sale that cannot be carried as discontinued activities (excluding impairment losses on non-current assets held for sale included in provisions, impairment balances and other write-downs). It shows the impact on the Group results when derecognising assets not related to the daily activities of the Group.

	Dec 17	Dec 16
	(€ thousand)	
(+) Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	8,068	5,332
(+) Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	—	—

	Dec 17	Dec 16
	(€ thousand)	
Of which: gains or losses from disposal of shareholdings considered strategic	—	—
Of which: gains or losses from disposal of other non-current assets for sale	(6,573)	1,005
Other gains and losses	**1,495**	**6,337**

Source: Consolidated public income statement and note 42 to the consolidated annual accounts.

NPL ratio: doubtful balances in loans and advances to customers divided by gross loans and advances to customers. The NPL ratio is one of the main indicators used in by the Group to monitor the current situation and changes in credit risk quality, and specifically the relationship between risks classified in the accounts as non-performing loans and the total balance of credit risk.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Impaired assets loans and advances to customers	2,564,825	3,061,298
Denominator	Gross loans and advances to customers	33,399,262	34,297,404
=	**NPL ratio (%)**	**7.68%**	**8.93%**

Source: Note 10.4 to the consolidated annual accounts.

NPL coverage ratio: relationship between total asset impairment losses and provisions for risks and contingent commitments and doubtful risks. The NPL coverage ratio is one of the main indicators used by the Group to monitor the situation and changes in the quality of credit risk, reflecting the degree to which the impairment of non-performing loans has been covered in the accounts via loan-loss provisions.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Impairment losses on assets loans to customers	1,090,225	1,350,348
	Impairment losses on debt securities	3,212	2,533
	Provisions for commitments and guarantees	31,656	35,329
Denominator	Impaired assets loans to customers	2,564,825	3,061,298
	Doubtful contingent commitments and risks	44,354	47,414
=	**NPL coverage ratio (%)**	**43.12%**	**44.66%**

Source: Consolidated public balance-sheet and off-balance-sheet information.

Foreclosed assets coverage ratio: value adjustments for impairment losses on foreclosed assets divided by gross value of foreclosed assets. The foreclosed assets coverage ratio is used by the Group to measure the coverage ratio of foreclosed assets and it is also an indication of asset quality.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Impairment losses on foreclosed assets value adjustments	887,000	900,768
Denominator	Gross value of foreclosed assets	1,566,355	1,725,436
=	**Foreclosed assets coverage ratio (%)**.....	**56.63%**	**52.21%**

Source: Note 3.1.6.2 to the consolidated annual accounts.

Loan-to-Deposit (LtD) ratio: this ratio measures, with management criteria, the loan investment that is funded with retail deposits, at the level of the sales network. The ratio compares loans and advances to customers (net of securitisations in the hands of third parties) with the sources of retail customer financing reflected on the balance sheet. More specifically, it is net loans (excluding securitisation liabilities) divided by customer deposits, promissory notes and subordinated liabilities (excluding individual mortgage bonds, temporary transfers of assets, wholesaler promissory notes, wholesale subordinated debt and preferred shares). The LtD ratio enables the Group to identify the relationship between loans and advances to customers (net of funds for insolvencies) and customer deposits and therefore to assess the extent to which the loans and advances granted to customers by the Group are financed with customer deposits.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Net loans exc. securitisations through the sales network	29,320,283	29,895,665
Denominator	Sales network creditors	30,433,646	30,579,778
=	**Loan-to-Deposit (LtD) ratio (%)**	**96.34%**	**97.76%**

Source: Bank's internal information with management criteria.

Total customers funds on- and off-balance sheet*:* sum of customers funds on-balance-sheet (customer deposits, debt securities issued and liabilities under insurance or reinsurance contracts) and off-balance-sheet (investment companies and funds and insurance products, excluding discretionarily-managed portfolios). It provides the amount of customer savings managed by the Group. It is quite relevant for the Group as the managing of customer off-balance funds it is one of the main sources of income for the Group.

	Dec 17	Dec 16
	(€ thousand)	
(+) Customers funds on-balance-sheet	43,923,565	46,011,332
Customer deposits	35,077,095	37,005,173
Debt securities issued	1,827,266	2,147,252
Liabilities under insurance or reinsurance contracts	7,019,204	6,858,907
(+) Customers funds off-balance-sheet	18,658,740	16,525,691
Total customer funds on and off-balance sheet	**62,582,305**	**62,537,023**

Source: Consolidated public income statement.

ROA: pre-tax profit as a percentage of total average consolidated assets. This ratio is used by the Group to measure the return obtained on its assets.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Pre-tax profit	182,731	70,770
Denominator	Total average consolidated assets	55,158,351	58,055,617
=	**ROA (%)**	**0.33%**	**0.12%**

Source: Consolidated public balance sheet and income statement.

ROE: income attributable to the parent as a percentage of average consolidated equity. This ratio is used by the Group to measure the return obtained on shareholders' funds.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Income attributable to the parent	138,367	142,897
Denominator	Average consolidated equity	2,778,296	2,668,850
=	**ROE (%)**	**4.98%**	**5.35%**

Source: Consolidated public balance sheet and income statement.

ROTE: income attributable to the parent as a percentage of average consolidated tangible equity. This ratio is used by the Group to measure the return obtained on tangible shareholders' funds.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Income attributable to the parent	138,367	142,897
Denominator	Average consolidated tangible equity	2,582,352	2,470,321
=	**ROTE (%)**	**5.36%**	**5.78%**

Source: Consolidated public balance sheet and income statement.

RORWA: Income attributable to the parent as a percentage of risk-weighted assets. This ratio is used by the Group to measure the return obtained on its risk-weighted assets.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Income attributable to the parent	138,367	142,897
Denominator	Risk-weighted assets	22,266,290	23,169,135
=	**RORWA (%)**	**0.62%**	**0.62%**

Source: Consolidated public income statement and note 1.7.2 to consolidated annual accounts.

Liquid assets: Sum of cash and central bank accounts, collateral available for ECB operations, collateral available for ECB operations outside of ECB guarantee pool and other marketable assets not eligible for ECB. It is used by the Group to show the assets the Group could use to face a sudden outflow of customer funds.

	Dec 17	Dec 16
	(€ thousand)	
(+) Cash and central bank accounts	3,280,943	759,309
(+) Collateral available for ECB operations	5,065,044	4,217,614
(+) Collateral available for ECB operations outside of ECB guarantee pool	1,647,285	4,146,242
(+) Other marketable assets not eligible for ECB	335,112	369,675
Liquid assets	**10,328,384**	**9,492,840**

NPA: The sum of the total non-performing risks and the gross foreclosed assets. The Group uses this APM to evaluate the size of the non-productive assets portfolio (non-performing loans and foreclosed assets).

	Dec 17	Dec 16
	(€ thousand)	
(+) Total non-performing risks	2,609,179	3,108,712
(+) Gross foreclosed assets	1,566,355	1,725,436
NPA	**4,175,534**	**4,834,148**

NPA ratio: Gross non-performing assets (total non-performing risks plus gross foreclosed assets) divided by gross loans and advances to customers plus the gross foreclosed assets. This ratio is used by the Group to measure the overall quality of the Group's loan portfolio.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Total non-performing risks	2,609,179	3,108,712
	Gross foreclosed assets	1,566,355	1,725,436
Denominator	Gross loans and advances to customers	33,399,262	34,297,404
	Gross foreclosed assets	1,566,355	1,725,436

		Dec 17	Dec 16
		(€ thousand, except %)	
=	**NPA ratio (%)**	**11.94%**	**13.42%**

Source: Details from the consolidated balance sheet and information from off-balance-sheet (memorandum) accounts.

NPA coverage ratio: Accumulated impairment of foreclosed assets plus impairment losses on loans and advances to customers (excluding provisions related to clauses which set a minimum interest rate for mortgages) divided by gross non-performing assets (non-performing loans plus gross foreclosed assets). This ratio is used by the Group to measure the coverage ratio of non-performing assets (foreclosed assets and non-performing loans) and it is also an indication of asset quality.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Coverage of total risks	1,125,093	1,388,210
	Coverage of foreclosed assets	887,000	900,768
Denominator	Total non-performing risks.....	2,609,179	3,108,712
	Gross foreclosed assets	1,566,355	1,725,435
=	**NPA coverage ratio (%)**.....	**48.19%**	**47.35%**

Texas ratio: Non-performing assets (total non-performing risks plus gross foreclosed assets) divided by the equity plus the non-performing assets provisions (coverage of total risks plus coverage of foreclosed assets). This ratio is used by the Group to assess its ability to absorb potential losses from non-performing assets . A ratio of more than 100 indicates that non-performing assets are greater than the resources that the Group may need to cover potential losses on those assets.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Total non-performing risks.....	2,609,179	3,108,712
	Gross foreclosed assets	1,566,355	1,725,436
Denominator	Shareholders' equity.....	2,854,915	2,753,123
	Coverage of total risks	1,125,093	1,388,210
	Coverage of foreclosed assets	887,000	900,768
=	**Texas ratio (%)**.....	**85.79%**	**95.88%**

Source: Details from the consolidated balance sheet and information from off-balance-sheet (memorandum) accounts

NPL ratio on loans to real estate developers: Doubtful balances in loans and advances to real estate developers divided by gross loans and advances to real estate developers. This APM is used by the Group to

measure the risk towards real estate sector that during the recent financial crisis was one of the more problematic industry.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Non-performing loans for real estate and development.....	775,480	1,065,467
Denominator	Financing for real estate construction and development.....	1,695,006	2,023,374
=	**NPL ratio on loans to real estate developers (%)** ...	**45.75%**	**52.66%**

Coverage of real estate development risk: relationship between accumulated impairment losses on real estate financing and non-performing loans to real estate. One of the indicators used by the Group to monitor the status and evolution of the quality of credit risk incurred with real estate developers and to assess the management of that risk.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Accumulated impairment losses on real estate financing	405,365	510,130
Denominator	Non-performing loans to real estate.....	775,480	1,065,437
=	**Coverage of real estate development risk (%)**.....	**52.27%**	**47.88%**

Foreclosed land coverage ratio: Value adjustments for impairment losses on foreclosed land divided by gross value of foreclosed land. The foreclosed land coverage ratio is used by the Group to measure the coverage ratio of foreclosed land and it is also an indication of the quality of this kind of assets. It is worth mentioning it as it is probably the kind of asset that it is more difficult to dispose.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Allowances for impairment losses from land	346,529	337,546
Denominator	Impairment losses from Land	530,095	530,632
=	**Foreclosed land coverage ratio (%)**.....	**65.37%**	**63.61%**

Recurring revenues: Net interest income plus net fee and commission income (fee and commission income minus fee and commission expense) plus net exchange differences. This APM is used by the Group to measure the evolution of the revenues more directly linked to the Bank's main activities (banking intermediation, asset gathering and bancassurance).

	Dec 17	Dec 16
	(€ thousand)	
(+) Net interest income	561,156	567,203

	Dec 17	Dec 16
	(€ thousand)	
(+) Fee and commission income	379,967	349,768
(-) Fee and commission expense	14,932	10,969
(+) Net exchange differences	1,334	1,259
Recurring revenues	**927,525**	**907,261**

Source: Consolidated public income statement.

Recurring costs: Total operating expenses (administration expenses plus amortisation and depreciation) minus extraordinary expenses. This APM is used by the Group to measure the evolution of the total costs of the Group generated by its main activities (banking intermediation, asset gathering and bancassurance), excluding extraordinary items such as the 2017 redundancy plan.

	Dec 17	Dec 16
	(€ thousand)	
(+) Administration expenses	668,194	599,858
(+) Amortisation and depreciation	50,806	52,347
(-) Extraordinary expenses	71,860	-
Recurring costs	**647,140**	**652,205**

Source: Consolidated public income statement and note 38 to the consolidated annual accounts.

Recurring profit before provisions: Recurring revenues minus recurring costs. This APM is used by the Group to measure the results before provisions generated by its main activities (banking intermediation, asset gathering and bancassurance).

	Dec 17	Dec 16
	(€ thousand)	
(+) Recurring revenues	927,525	907,261
(-) Recurring costs	647,140	652,205
Recurring profit before provisions	**280,385**	**255,056**

Source: Consolidated public income statement and note 38 to the consolidated annual accounts.

Recurring revenues-average total assets: Recurring revenues divided by average total assets. This APM is used by the Group to measure its ability to generate revenues more directly linked to the Bank's main activities from its assets.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Recurring revenues	927,525	907,261
Denominator	Average total assets	55,158,351	58,055,617
=	**Recurring revenues-average total assets (%)**	**1.68%**	**1.56%**

Source: Consolidated public income statement.

Recurring cost-to-income ratio: recurring costs divided by recurred revenues. This APM is used by the Group to measure the evolution in the Group's efficiency in performing its main activities.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Recurring costs	647,140	652,205
Denominator	Recurring revenues	927,525	907,261
=	**Recurring cost-to-income ratio (%)**	**69.77%**	**71.88%**

Source: Consolidated public income statement.

RWAs-total assets ratio: Total risk-weighted assets divided by the total assets. This ratio is used by the Group to measure the risk profile of the Group's balance sheet.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Risk-weighted assets	22,266,290	23,169,135
Denominator	Total assets	53,106,969	57,175,874
=	**RWAs-total assets ratio (%)**	**41.93%**	**40.52%**

Source: Consolidated public income statement and note 1.7 to the consolidated annual accounts.

Net fee income: Fee and commission income minus fee and commission expense plus net exchange differences. This APM is used by the Group to measure the margin obtained with respect to its fees and commissions.

	Dec 17	Dec 16
	(€ thousand)	
(+) Fee and commission income	379,967	349,768
(-) Fee and commission expense	14,932	10,969
(+) Net exchange differences	1,334	1,259
Net fee income	**366,369**	**340,058**

Source: Consolidated public income statement.

Net fee income-average total assets: Net fee and commission income (fee and commission income minus fee and commission expense plus net exchange differences) divided by average total assets. This ratio is used by the Group to measures the contribution of the fee income to the profitability of the Bank.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	(+) Fee and commission income	379,967	349,768
	(-) Fee and commission expense	14,932	10,969
	(+) Net exchange differences	1,334	1,259

		Dec 17	Dec 16
		(€ thousand, except %)	
Denominator	Average total assets.....	55,158,351	58,055,617
=	**Net fee income-Average total assets (%)**	**0.66%**	**0.59%**

Source: Consolidated public income statement.

Available liquidity position: Sum of the liquid assets (cash and central bank accounts, collateral available for ECB operations, collateral available for ECB operations outside of ECB guarantee pool and other marketable assets not eligible for ECB) and issuance capacity for mortgage covered and public sector covered bonds. This APM is used by the Group to calculate the available liquid assets of the Group.

	Dec 17	Dec 16
	(€ thousand)	
(+) Liquid assets.....	10,328,384	9,492,840
(+) Issuance capacity for mortgage covered and public sector covered bonds	6,688,186	7,846,917
Available liquidity position.....	**17,016,570**	**17,339,757**

Source: Note 3.4 to the consolidated annual accounts.

Fixed income-interest income ratio: Fixed income portfolio revenues divided by interest income. This APM is used by the Group to measure the contribution of the fixed income portfolio to the financial income of the Bank.

		Dec 17	Dec 16
		(€ thousand, except %)	
Numerator	Fixed income portfolio revenues.....	89,505	179,387
Denominator	Interest income.....	695,983	832,867
=	**Fixed income-interest income ratio (%)**.....	**12.86%**	**21.54%**

Source: Bank's internal information with management criteria.

CONDITIONS OF THE PREFERRED SECURITIES

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

The Preferred Securities (as defined below) have been issued by Ibercaja Banco, S.A. (the "**Bank**") by virtue of the resolutions passed by (a) the general meeting of shareholders of the Bank, held on 30 August 2017 and (b) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 23 February 2018 and in accordance with the First Additional Provision of Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) ("**Law 10/2014**") and the CRR (as defined below).

1 Definitions

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

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

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

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

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

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

(b) is in a Representative Amount,

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

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

"**Accrual Date**" has the meaning given to such term in Condition 4.1;

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

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation of the Bank constituting an additional tier 1 instrument (*instrumento de capital de nivel 1 adicional*) in accordance with the Applicable Banking Regulations and as referred to under Additional Provision 14.3º(c) of Law 11/2015;

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

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Group

including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies of the Competent Authority relating to capital adequacy, resolution and/or solvency then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Group);

"**Authorised Signatories**" means any two of the directors of the Bank;

"**Bank**" has the meaning given to such term in the introductory paragraph;

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

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

"**Capital Event**" means, at any time on or after the Closing Date, a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would be likely to result) in:

(a) the exclusion of any of the aggregate Outstanding Principal Amount of the Preferred Securities from the Group's Additional Tier 1 Capital; or

(b) the reclassification of any of the aggregate Outstanding Principal Amount of the Preferred Securities as a lower quality form of own funds of the Group in accordance with the Applicable Banking Regulations;

"**Certificate**" has the meaning given to such term in Condition 2.3;

"**CET**" means Central European Time;

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

"**CET1 ratio**" means with respect to the Group, the ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Group divided by the Risk-Weighted Assets Amount of the Group, as calculated by the Bank at any time in accordance with Applicable Banking Regulations and reported to the Competent Authority;

"**Chairman**" has the meaning given to such term in Condition 11.3;

"**Clearstream Luxembourg**" has the meaning given to such term in Condition 2.2;

"**Closing Date**" means 6 April 2018;

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

"**Competent Authority**" means the European Central Bank or the Bank of Spain, as applicable, or such other successor authority having primary bank supervisory authority with respect to prudential oversight and supervision in relation to the Group;

"**Consolidated Net Income**" means the consolidated net income (excluding minority interests) of the Group, as calculated and set out in the most recent published audited annual consolidated accounts of the Group, as approved by the Bank:

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

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as amended or replaced from time to time;

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

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

As of the Closing Date, CRR defines "distributable items" as the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments (excluding for avoidance of doubt any Tier 2 instruments) less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bylaws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

"**Distribution**" means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with Condition 4;

"**Distribution Payment Date**" means each of 6 January, 6 April, 6 July and 6 October, in each year, with the first Distribution Payment Date falling on 6 July 2018;

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

"**Distribution Rate**" means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 4;

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

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

"**EURIBOR 6-month**" means:

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

(b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the rates at which deposits in euros are offered by four major banks in the Eurozone interbank market, as selected by the Bank, at such time on such Reset Determination Date to prime banks in the Eurozone interbank market for a six-month period commencing on such Reset Date in a Representative Amount, with the Bank to request the principal Eurozone office of each such major bank to provide a quotation of its rate;

"**Euroclear**" has the meaning given to such term in Condition 2.2;

"**Extraordinary Resolution**" has the meaning given to such term in Condition 11;

"**First Reset Date**" means 6 April 2023;

"**Full Loss Absorbing Instruments**" has the meaning given to such term in Condition 6.1(c);

"**Group**" means the Bank together with its consolidated Subsidiaries;

"**Holders**" means the holders of the Preferred Securities in the terms provided in Condition 2.3;

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

"**Iberclear Members**" means the respective participating entities (*entidades participantes*) in Iberclear;

"**Independent Financial Adviser**" means an independent financial firm or financial adviser with appropriate expertise or financial institution of international repute appointed by the Bank at its own expense;

"**Independent Financial Adviser Certificate**" means a certificate signed by a representative of an Independent Financial Adviser stating that, in the opinion of such Independent Financial Adviser, (i) the changes determined by the Bank pursuant to a substitution or variation of the Preferred Securities under Condition 8 will result in the Qualifying Preferred Securities having terms not materially less favourable to the Holders than the terms of the Preferred Securities on issue and (ii) the differences between the terms and conditions of the Qualifying Preferred Securities and these Conditions are only those strictly necessary to comply (a) with the requirements of the Competent Authority in relation to Additional Tier 1 Capital in accordance with Applicable Banking Regulation or (b) in the case of a Tax Event, cure the relevant Tax Event;

"**Initial Margin**" means 6.809 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 from time to time;

"**Law 10/2014**" has the meaning given to such term in the introductory paragraph;

"**Law 11/2015**" means Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended from time to time;

"**Liquidation Distribution**" means the Outstanding Principal Amount per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 4, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

"**Loss Absorbing Instruments**" means, at any time, any instrument (other than the Preferred Securities) issued directly or indirectly by the Bank or, as applicable, any member of the Group, which qualifies as Additional Tier 1 Capital and has terms pursuant to which all or some of its principal amount may be written down (whether on a permanent or a temporary basis) or converted into equity (in each case in accordance with its conditions) on the occurrence, or as a result, of a trigger event set by reference to the CET1 ratio of the Group falling below a specific threshold;

As of the Closing Date there are no Loss Absorbing Instruments outstanding.

"**Loss Absorbing Written Down Instruments**" means, at any time, any instrument (other than the Preferred Securities) issued directly or indirectly by the Bank or, as applicable, any member of the Group, which qualifies as Additional Tier 1 Capital and which, immediately prior to the relevant Write Up, has a prevailing principal amount lower than the principal amount that it was originally issued with due to such principal amount having been written down on a temporary basis pursuant to its conditions;

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

"**Maximum Write Up Amount**" means the Consolidated Net Income multiplied by the amount obtained by dividing (i) the sum of the aggregate Original Principal Amount of the Preferred Securities and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the Group and (ii) the total Tier 1 Capital of the Group as of the Write Up Date;

"**Original Principal Amount**" means, in respect of each Preferred Security, the principal amount of such Preferred Security as issued on the Closing Date, not taking into account any Write Down or any other write down or cancellation or any subsequent Write Up;

"**outstanding**" means, in relation to the Preferred Securities, all the Preferred Securities issued other than those Preferred Securities (a) that have been redeemed pursuant to Condition 7 or otherwise pursuant to the Conditions; (b) that have been purchased and cancelled under Condition 9; or (c) that have become void under Condition 14,

provided that for each of the following purposes, namely:

(a) the right to attend and vote at any meeting of Holders; and

(b) the determination of how many and which Preferred Securities are for the time being outstanding for the purposes of Condition 11,

those Preferred Securities (if any) which are for the time being held by or for the benefit of the Bank or any of its Subsidiaries shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

"**Outstanding Principal Amount**" means, in respect of each Preferred Security, at any time, the Original Principal Amount of such Preferred Security as reduced from time to time by any Write Downs or any other write down or cancellation, as the case may be, and, if applicable, as subsequently increased from time to time by any Write Up in accordance with Condition 6;

"**Preferred Securities**" means the €350,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities issued by the Bank on the Closing Date;

"**Proceedings**" has the meaning given to such term in Condition 15;

"**Qualifying Preferred Securities**" means preferred securities issued directly by the Bank or issued indirectly by the Bank and guaranteed by the Bank where such securities:

(a) have terms not materially less favourable to the Holders than the terms of the Preferred Securities with any differences between their terms and conditions and these Conditions being those strictly necessary to (in the case of a Capital Event) comply with the requirements of the Competent Authority in relation to Additional Tier 1 Capital in accordance with the Applicable Banking Regulations and/or (in the case of a Tax Event) cure the relevant Tax Event (provided that the Bank shall have obtained a certificate of two Authorised Signatories and an Independent Financial Adviser Certificate to that effect (copies thereof will be available at the Bank's specified office during its normal business hours) at least 15 Business Days prior to the issue or, as appropriate, variation of the relevant securities); and

(b) subject to (a) above, shall (1) rank at least equal to the ranking of the Preferred Securities, (2) have the same currency, the same (or higher) Distribution Rates and the same Distribution Payment Dates as those from time to time applying to the Preferred Securities, (3) have the same redemption rights as the Preferred Securities; (4) comply with the then current requirements of Applicable Banking Regulations in relation to Additional Tier 1 Capital; (5) preserve any existing rights under the Preferred Securities to any accrued Distribution which has not been paid in respect of the period from (and including) the Distribution Payment Date last preceding the date of substitution or variation, subject to Condition 4, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Preferred Securities immediately prior to such variation or substitution, and (7) shall not at such time be subject to a Capital Event or a Tax Event; and

(c) are (i) listed and admitted to trading on AIAF or (ii) listed on a Recognised Stock Exchange, if the Preferred Securities were listed immediately prior to such variation or substitution.

"**Royal Decree 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 from time to time;

"**Royal Decree 1012/2015**" means Royal Decree 1012/2015, of 6 November, developing 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 from time to time;

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

"**Redemption Price**" means, per Preferred Security, the Liquidation Distribution upon the date fixed for redemption of the Preferred Securities;

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

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

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

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

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

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

(a) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period; or

(b) in the case of the Reset Period commencing on the First Reset Date, 0.377 per cent. per annum;

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

"**Screen Page**" means the display page on the relevant Reuters information service designated as:

(a) in the case of the 5-year Mid-Swap Rate, the "ICESWAP/ISDAFIX2" page; or

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

"**Spanish Central Registry**" has the meaning given in Condition 2.2;

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

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

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

"**Tax Event**" means, at any time on or after the Closing Date, a change in, or amendment to, the laws or regulations of the Kingdom of Spain, or any change in the application of such laws or regulations that results in:

(a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced; or

(b) the Bank being obliged to pay additional amounts pursuant to Condition 12 below; or

(c) the applicable tax treatment of the Preferred Securities being materially affected,

and, in each case, cannot be avoided by the Bank taking reasonable measures available to it;

"**Trigger Event**" means if, at any time, as determined by the Bank or the Competent Authority (or any other agent appointed for such purpose by the Competent Authority), the CET1 ratio of the Group is less than 5.125 per cent.;

"**Waived Set-Off Rights**" means any and all rights of or claims of any Holder for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Preferred Security;

"**Write Down**" and "**Written Down**" have the meanings given to such terms in Condition 6.1(a);

"**Write Down Amount**" means, on any Write Down Date, the amount by which the then Outstanding Principal Amount of each Preferred Security is to be Written Down on such date, being (save as may otherwise be required by the Applicable Banking Regulations) the lower of (i) and (ii) below:

(i) the amount per Preferred Security which is determined by the Bank to be necessary (in conjunction with (a) the concurrent Write Down of the other Preferred Securities; and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments, in each case in the manner and to the extent provided in Condition 6.1(b)) to restore the Group's CET1 ratio to at least 5.125 per cent.; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Preferred Security to one cent.

The Outstanding Principal Amount of a Preferred Security shall not at any time be reduced below one cent as a result of a Write Down;

"**Write Down Date**" means the date on which a Write Down will take effect;

"**Write Down Notice**" means the notice to the Holders in accordance with Condition 13 stating:

(i) that the Trigger Event has occurred;

(ii) the Write Down Date; and

(iii) if then determined, the principal amount (expressed per Original Principal Amount or as a percentage) by which each Preferred Security will be Written Down on the Write Down Date.

If the Write Down Amount has not been determined when the Write Down Notice is given, the Bank shall, as soon as reasonably practicable following such determination, notify Holders of the Write Down Amount in accordance with Condition 13;

"**Write Up**" has the meaning given to such term in Condition 6.2(a); and

"**Write Up Date**" means the date on which a Write Up will take effect.

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

2 Form, Denomination and Title

2.1 The Preferred Securities have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate nominal amount of €350,000,000 and Original Principal Amount of €200,000.

2.2 The Preferred Securities have been registered with 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 Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream Luxembourg**") with Iberclear.

Iberclear manages the settlement and clearing of the Preferred Securities, notwithstanding the Bank's commitment to assist, when appropriate, on the clearing and settlement of the Preferred Securities through Euroclear and Clearstream Luxembourg.

The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following International Securities Identification Number (ISIN) to identify the Preferred Securities: ES0844251001. The Common Code for this issue is 180306382.

2.3 Title to the Preferred Securities is 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 having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Preferred Securities recorded therein. In these Conditions, the "Holder" means the person in whose name such Preferred Securities 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 (or, in the case of a joint holding, the first named thereof) and Holder shall be construed accordingly.

One or more certificates (each a "**Certificate**") attesting to the relevant Holder's holding of Preferred Securities in the relevant registry will be delivered by the relevant Iberclear Member or 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 Holder upon such Holder's request.

The Preferred Securities have been issued without any restrictions on their transferability. Consequently, the Preferred Securities may be transferred and title to the Preferred Securities 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 Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant Preferred Securities 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 Holder.

3 Status of the Preferred Securities

The payment obligations of the Bank under the Preferred Securities on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law and, in accordance with Additional Provision 14.3º 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 (*concurso*) of the Bank, for so long as the obligations of the Bank under the Preferred Securities qualify as Additional Tier 1 Instruments, rank:

(a) *pari passu* among themselves and with:

(i) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law qualifying as Additional Tier 1 Instruments; and

(ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank's obligations under the Preferred Securities;

(b) junior to:

(i) any claims for principal in respect of unsubordinated obligations of the Bank;

(ii) any subordinated obligations (*créditos subordinados*) of the Bank under Article 92.1º of the Insolvency Law;

(iii) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law not qualifying as Additional Tier 1 Instruments; and

(iv) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Bank's obligations under the Preferred Securities; and

(c) senior to:

(i) any claims for the liquidation amount of the ordinary shares of the Bank; and

(ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under the Preferred Securities.

4 Distributions

4.1 The Preferred Securities accrue Distributions on their Outstanding Principal Amount:

(a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7 per cent. per annum; and

(b) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated

on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 4.3 and 4.4, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date (other than as a result of the postponement of such payment as a result of the operation of Condition 4.2), it shall be calculated by the Bank by applying the Distribution Rate to the Outstanding Principal Amount in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the "**Accrual Date**") to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

4.2 Subject to any applicable fiscal or other laws and regulations, the payment of Distributions on the Preferred Securities will be made in euros by the Bank on the relevant Distribution Payment Date by transfer to an account capable of receiving euro payments, 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 Distributions falls due. Holders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant Preferred Securities. The Bank will have no responsibility or liability for the records relating to payments made in respect of the Preferred Securities.

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

4.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution (including any additional amounts pursuant to Condition 12) in whole or in part at any time that it deems necessary or desirable and for any reason.

4.4 Without prejudice to the right of the Bank to cancel the payments of any Distribution under Condition 4.3 above:

(a) Payments of Distributions (including any additional amounts pursuant to Condition 12) in any financial year of the Bank shall be made only to the extent the Bank has sufficient Distributable Items. To the extent that the Bank has insufficient Distributable Items to make Distributions (including any additional amounts pursuant to Condition 12) on the Preferred Securities scheduled for payment in the then current financial year and any interest payments, distributions or other payments on own funds items that have been paid or made or are scheduled or required to be paid out of or conditional to sufficient Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank or which are not required to be made conditional upon Distributable Items, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.

(b) If the Competent Authority, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a

relevant Distribution (including any additional amounts pursuant to Condition 12) in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.

(c) The Bank may make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities if and to the extent that payment of any Distribution (including any additional amounts pursuant to Condition 12) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV, which will include Article 48 of Law 10/2014 and any of its development provisions), the Maximum Distributable Amount to be exceeded or otherwise would cause any other breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations.

(d) If the Trigger Event occurs at any time on or after the Closing Date, any accrued and unpaid Distributions up to (but excluding) the corresponding Write Down Date (whether or not such distributions have become due for payment) shall be automatically cancelled in accordance with Condition 6.1(a)(iii).

4.5 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 4.3 above or the limitations on payment set out in Condition 4.4 above and Condition 6.1(a)(iii) below then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

4.6 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 4.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 4.4 above and Condition 6.1(a)(iii) below will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with Preferred Securities. If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) and accordingly, such Distribution shall not in any such case be due and payable. Notwithstanding the previous sentence, the Bank will give notice to the Holders in accordance with Condition 13 of any election under Condition 4.3 and of any limitation set out in Condition 4.4 occurring or applying and for avoidance of doubt, failure to deliver such notice shall not affect the validity of the cancellation.

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

Condition 13 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

4.8 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on all Holders

5 Liquidation Distribution

5.1 Subject as provided in Condition 5.2 below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities will confer an entitlement to receive, out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares of the Bank or any other instrument of the Bank ranking junior to the Preferred Securities.

5.2 If, before such liquidation or winding-up of the Bank described in Condition 5.1, the Trigger Event occurs but the relevant reduction of the Outstanding Principal Amount pursuant to Condition 6.2 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 5.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such reduction had taken place immediately prior to such liquidation or winding-up.

5.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 5.1 and 5.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

6 Loss Absorption following a Trigger Event and Write Up of the Preferred Securities

6.1 Loss Absorption following a Trigger Event

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

(i) immediately notify the Competent Authority that a Trigger Event has occurred;

(ii) as soon as reasonably practicable deliver a Write Down Notice to Holders in accordance with Condition 13 and file a relevant event announcement (*hecho relevante*) with the CNMV;

(iii) any accrued and unpaid Distributions up to (but excluding) the Write Down Date shall be cancelled by the Bank in accordance with Condition 4.4 above; and

(iv) irrevocably and mandatorily (and without the need for the consent of the Holders) without delay, and by no later than one month from the occurrence of the relevant Trigger Event, reduce the then Outstanding Principal Amount of each Preferred Security by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

Any failure or delay by the Bank in giving the Write Down Notice to the Holders or the notification to the Competent Authority under Condition 6.1(a)(i) will not in any way impact on the effectiveness of, or otherwise invalidate, any Write Down, or give Holders any rights as a result of such failure or delay, and shall not constitute a default by the Bank under the Preferred Securities or for any purpose.

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

Holders shall have no claim against the Bank in respect of the Outstanding Principal Amount of the Preferred Securities reduced as described above or any accrued and unpaid Distributions cancelled, in each case pursuant to the operation of the loss absorption provisions following a Trigger Event as described above.

(b) Write Down of the Preferred Securities will be effected, save as may otherwise be required by the Competent Authority, pro rata with (a) the concurrent Write Down of the other Preferred Securities; and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), provided that:

(i) with respect to each Loss Absorbing Instrument (if any), such pro rata write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 ratio of the Group to the lower of (a) such Loss Absorbing Instrument's trigger level and (b) 5.125 per cent. (being the level at which a Trigger Event occurs in respect of the Preferred Securities); and

(ii) if for any reason the Bank is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Preferred Securities will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Bank is unable to write down or convert any Loss Absorbing Instruments as aforesaid, the Write Down Amount determined in accordance with part (i) of the definition of "Write Down Amount" will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

(c) If, in connection with the Write Down or the calculation of the Write Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down or converted into equity in full and not in part only ("**Full Loss Absorbing Instruments**") then:

(i) the requirement that a Write Down of the Preferred Securities shall be effected pro rata with the write down or conversion into equity, as the case may be, of any such Loss Absorbing Instruments shall not be construed as requiring the Preferred Securities to be Written Down in full (or in full save for one cent) simply by virtue of the fact that such Full Loss Absorbing Instruments will be written down or converted in full; and

(ii) for the purposes of calculating the Write Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write down of principal or conversion into equity, as the case may be, among the Preferred Securities and such other Loss Absorbing Instruments on a pro rata basis) as if their terms permitted

partial write down or conversion into equity, such that the write down or conversion into equity of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written down or converted into equity pro rata with the Preferred Securities and all other Loss Absorbing Instruments (in each case subject to and as provided in Condition 6.1(b)) to the extent necessary to restore the Group's CET1 ratio to at least 5.125 per cent.; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-off or converted into equity, as the case may be, with the effect of increasing the Group's CET1 ratio above the minimum required level under (a) above.

(d) Following a reduction of the Outstanding Principal Amount of the Preferred Securities as described above, Distributions will accrue on the reduced Outstanding Principal Amount of each Preferred Security from (and including) the relevant Write Down Date, and (for the avoidance of doubt) such Distributions will be subject to Condition 4.4 and Condition 6.1(a).

(e) A Write Down may occur on one or more occasions and accordingly the Preferred Securities may be Written Down on one or more occasions (provided however, for the avoidance of doubt, that the principal amount of a Preferred Security shall not at any time be reduced to below one cent). Any reduction of the Outstanding Principal Amount pursuant to Condition 6.1(a) shall not constitute a default by the Bank under the Preferred Securities or for any purpose and shall not entitle Holders to petition for the liquidation, dissolution or winding-up of the Bank.

Any Write Down pursuant to this Condition 6.1 shall not in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

(f) If the Outstanding Principal Amount of the Preferred Securities is Written Down to one cent, the Preferred Securities will not be automatically cancelled.

(g) For the purposes of any calculation in connection with a Write Down or Write Up of the Preferred Securities which necessarily requires the determination of a figure in the Accounting Currency (or in an otherwise consistent manner across obligations denominated in different currencies), including (without limitation) any determination of a Write Down Amount and/or a Maximum Write Up Amount, any relevant obligations (including the Preferred Securities) which are not denominated in the Accounting Currency shall, (for the purposes of such calculation only) be deemed notionally to be converted into the Accounting Currency at the foreign exchange rates determined, in the sole discretion of the Bank, to be applicable based on its regulatory reporting requirements under the Applicable Banking Regulations.

(h) The Bank will conduct the relevant arrangements with Iberclear on or before the Write Down Date to complete the corresponding reduction of the Outstanding Principal Amount of the Preferred Securities.

6.2 Write Up of the Preferred Securities

(a) Subject to compliance with the prevailing Applicable Banking Regulation, if, following a Write Down in accordance with Condition 6.1, the Group records a positive Consolidated Net Income at any time while the Outstanding Principal Amount of the Preferred Securities is less than their Original Principal Amount, the Bank may, at its full discretion, increase the Outstanding Principal

Amount of each Preferred Security (such increase, a "**Write Up**") by such amount (calculated per Original Principal Amount) as the Bank may elect, provided that such Write Up shall not:

(i) result in the Outstanding Principal Amount of the Preferred Securities being greater than their Original Principal Amount;

(ii) be operated whilst a Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) result in the Maximum Write Up Amount to be exceeded when taken together with the aggregate of:

(a) any previous Write Up of the Preferred Securities out of the same Consolidated Net Income since the end of the then previous financial year;

(b) the aggregate amount of any Distribution payments on the Preferred Securities that were paid or calculated (but disregarding any Distributions cancelled) on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount at any time after the end of the then previous financial year;

(c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Consolidated Net Income concurrently (or substantially concurrently) with the Write Up and (if applicable) any previous increase in principal amount of such Loss Absorbing Written Down Instruments out of the same Consolidated Net Income since the end of the then previous financial year; and

(d) the aggregate amount of any distribution payments on such Loss Absorbing Written Down Instruments that were paid or calculated (but disregarding any distributions cancelled) on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Written Down Instruments were issued at any time after the end of the then previous financial year.

A Write Up will also not be effected in circumstances in which it would cause any Maximum Distributable Amount (if any) to be exceeded.

(b) In the event of a Write Up in accordance with Condition 6.2(a), the Bank will give notice to Holders in accordance with Condition 13 not more than 10 Business Days following the day on which it resolves to effect such Write Up, which notice shall specify the amount of such Write Up (expressed per Original Principal Amount or as a percentage) and the Write Up Date.

(c) Any Write Up shall be applied concurrently (or substantially concurrently) and pro rata with other write ups to be effected out of the Consolidated Net Income in respect of any Loss Absorbing Written Down Instruments.

(d) Following a Write Up in respect of the Preferred Securities, Distributions will accrue on the increased Outstanding Principal Amount of each Preferred Security from (and including) the Write Up Date, and (for the avoidance of doubt) such Distributions will be subject to Condition 4.4 and Condition 6.1(a).

(e) A Write Up may occur on one or more occasions until the Outstanding Principal Amount of the Preferred Securities has been reinstated to the Original Principal Amount. Any decision by the

Bank to effect or not to effect any Write Up on any occasion shall not preclude it from effecting or not effecting any Write Up on any other occasion.

The decision of the Bank to Write Up or not the Preferred Securities will not limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

(f) A Write Up shall be operated at the sole and absolute discretion of the Bank and there shall be no obligation for the Bank to operate or accelerate a Write Up in any circumstance.

(g) The Bank will conduct the relevant arrangement with Iberclear on or before the Write Up Date to complete the corresponding Write Up of the Outstanding Principal Amount of the Preferred Securities.

7 Optional Redemption

7.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 7.

7.2 Subject to Conditions 7.3 and 7.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force).

As of the Closing Date, Article 78(1) of the CRR provides that the Competent Authority will give its consent to a redemption of the Preferred Securities in such circumstances provided that either of the following conditions is met:

(a) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or

(b) the Bank has demonstrated to the satisfaction of the Competent Authority that its own funds would, following such redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV Directive by a margin that the Competent Authority may consider necessary on the basis of Article 104(3) of the CRD IV Directive.

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

As of the Closing Date, Article 78(4) of the CRR provides that the Competent Authority may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, the Bank demonstrates to the satisfaction of the Competent Authority that the regulatory reclassification was not reasonably foreseeable at the Closing Date.

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

As of the Closing Date, Article 78(4) of the CRR provides that the Competent Authority may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Tax Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, the Bank demonstrates to the satisfaction of the Competent Authority that such Tax Event is material and was not reasonably foreseeable at the Closing Date

7.5 The decision to redeem the Preferred Securities must be, subject to Condition 7.7 below, irrevocably notified by the Bank to the Holders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a relevant event announcement (*hecho relevante*) with the CNMV and in accordance with Condition 13.

The Bank will not give notice under this Condition 7.5 unless, at least 15 days prior to the publication of any notice of redemption, it will make available to the Holders at its registered office, a certificate signed by two of its duly authorised officers stating that a Capital Event or a Tax Event has occurred, or there is sufficient certainty that it will occur, as the case may be.

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

(a) Distributions on the Preferred Securities shall cease;

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

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

7.7 The Bank may not give a notice of redemption pursuant to this Condition 7 if a Trigger Event notice has been given. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, a Write Down of the principal amount of the Preferred Securities will occur as provided under Condition 6.2. The Bank shall give notice of any such automatic rescission of a redemption notice to the Holders in accordance with Condition 13 as soon as possible thereafter.

7.8 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue in accordance with Condition 4 above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

7.9 The Bank shall not be entitled to redeem the Preferred Securities pursuant to Condition 7.2 (but this restriction shall not, for the avoidance of doubt, apply to a redemption pursuant to Conditions 7.3 and 7.4) if, on the relevant redemption date, the Outstanding Principal Amount of the Preferred Securities is lower than their Original Principal Amount as a result of a Write Down until any principal amount by which the Preferred Securities have been Written Down pursuant to Condition 6.1 have first been reinstated in full pursuant to Condition 6.2 (and any notice of redemption which have been given in such circumstances shall be automatically rescinded and shall be of no force and effect).

8 Substitution and Variation

8.1 Subject to the prior consent of the Competent Authority (and/or otherwise in accordance with the Applicable Banking Regulations then in force) and having given no less than 30 nor more than 60 calendar days' notice to the Holders (in accordance with Condition 13), if a Capital Event or Tax Event has occurred and is continuing, the Bank may substitute all (but not some only) of the Preferred Securities or vary the terms of all (but not some only) of the Preferred Securities, without the consent of the Holders, so that they become or remain Qualifying Preferred Securities. Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the Preferred Securities. Such substitution or variation will be effected without any cost or charge to the Holders.

8.2 The Bank will not give a notice of substitution or variation after a Trigger Event notice has been given. If the Bank has given a notice of substitution or variation in accordance with these Conditions but prior to such substitution or variation a Trigger Event is effective, the relevant substitution or variation notice shall be automatically rescinded and shall be of no force and effect. The Bank shall give notice thereof to the Holders in accordance with Condition 13 as soon as possible following any such automatic rescission of a substitution or variation notice.

9 Purchases of Preferred Securities

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

As of the Closing Date, Article 29(3)(b) of the Commission Delegated Regulation (EU) No 241/2014, of 7 January 2014, provides for market making purposes that the Competent Authority may only permit the Bank to purchase the Preferred Securities provided that the total Outstanding Principal Amount of the Preferred Securities so purchased does not exceed the lower of (i) 10 per cent. of the aggregate Outstanding Principal Amount of the Preferred Securities, and (ii) 3 per cent. of the total amount the outstanding Additional Tier 1 Instruments of the Bank.

Any Preferred Securities so acquired by the Bank or any member of the Group may (subject to the approval of the Competent Authority and in accordance with Applicable Banking Regulations then in place) be held, resold or, at the option of the Bank or such member of the Group, cancelled.

10 Waiver of Set-off

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

For the avoidance of doubt, nothing in this Condition 10 is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Preferred Security but for this Condition 10.

11 Meetings of Holders

11.1 Convening meetings

The Bank may, at any time, and shall, if required in writing by Holders holding not less than 10 per cent. in aggregate Outstanding Principal Amount of the Preferred Securities for the time being outstanding, convene a meeting of the Holders and if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders.

11.2 Procedures for convening meetings

(a) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 13. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either:

(i) specify the terms of the Extraordinary Resolution to be proposed; or

(ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Bank or an agent thereof, provided that, in the case of this (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid.

The notice shall:

(i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting; or

(ii) inform Holders that details of the voting arrangements are available free of charge from the Bank or an agent thereof, provided that, in the case of this (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid.

A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

(b) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 11.2(a) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

11.3 Chairman

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

11.4 Quorums

(a) Regular Quorum

At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Outstanding Principal Amount of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business, and no business (other than the choosing of a Chairman in accordance with Condition 11.3) shall be transacted at any meeting unless the required quorum is present at the commencement of business.

(b) Extraordinary Quorum

The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent. in Outstanding Principal Amount of the Preferred Securities for the time being outstanding.

(c) Enhanced Quorum

At any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

(i) a reduction or cancellation of the Outstanding Principal Amount of the Preferred Securities; or

(ii) without prejudice to the provisions of Condition 4 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or

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

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

(v) the sanctioning of any scheme or proposal described in Condition 11.8(b)(vi) below; or

(vi) alteration of this proviso or the proviso to Condition 11.5(a) below,

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

11.5 Adjourned Meeting

(a) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 11.1, be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by

the Chairman and approved by the Bank). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Bank, and the provisions of this sentence shall apply to all further adjourned meetings.

(b) At any adjourned meeting one or more Eligible Persons present (whatever the Outstanding Principal Amount of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 11.4 the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Outstanding Principal Amount of the Preferred Securities for the time being outstanding.

11.6 Right to attend and vote

(a) The provisions governing the manner in which Holders may attend and vote at a meeting of the holders of Preferred Securities must be notified to Holders in accordance with Condition 13 and/or at the time of service of any notice convening a meeting.

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

(c) Subject as provided in Condition 11.6(b), 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 Preferred Security.

11.7 Holding of meetings

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

(b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Outstanding Principal Amount of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(c) Subject to Condition 11.7(e), if at any meeting a poll is demanded, it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct

and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as of the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

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

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

11.8 Approval of the resolutions

(a) Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 13 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

(b) The expression "Extraordinary Resolution" when used in this Condition 11 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll.

A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 11.4(b) and 11.4(c)), namely:

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

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

(iii) power to agree to any modification of the provisions contained in these Conditions or the Preferred Securities, including, in particular, any provision relating to the Write Down and Write Up of the Preferred Securities, which is proposed by the Bank;

(iv) power to give any authority or approval which under the provisions of this Condition 11 or the Preferred Securities is required to be given by Extraordinary Resolution;

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

(vi) power to agree with the Bank or any substitute, the substitution of any entity in place of the Bank (or any substitute) as the principal debtor in respect of the Preferred Securities.

(c) Subject to Condition 11.8(a), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

11.9 Miscellaneous

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

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

(c) Any modification or waiver of the Conditions in accordance with this Condition 11 will be effected in accordance with the Applicable Banking Regulations and conditional upon any prior approval from the Competent Authority, to the extent required thereunder.

12 Taxation

12.1 All payments of Distributions and other amounts payable (excluding, for the avoidance of doubt, repayment of principal) in respect of the Preferred Securities by or on behalf of the Bank will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax in respect of payments of Distributions (but not any Outstanding Principal Amount or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.

12.2 The Bank shall not be required to pay any additional amounts in relation to any payment in respect of Preferred Securities:

(a) presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than:

(i) the mere holding of Preferred Securities; or

(ii) the receipt of any payment in respect of Preferred Securities;

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

(c) to, or to a third party on behalf of, a Holder who is an individual resident for tax purposes in Spain (or any political subdivision or any authority thereof or therein having power to tax); or

(d) to, or to a third party on behalf of, a Holder in respect of whose Preferred Securities the Bank (or an agent acting on behalf of the Bank) has not received such information it may be required in order to comply with Spanish tax reporting requirements, as may be necessary to allow payments on such Preferred Securities to be made free and clear of withholding tax or deduction on account of any taxes imposed by Spain, including when the Bank (or an agent acting on behalf of the Bank) does not receive a duly executed and completed certificate, pursuant to Law 10/2014 and Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July, and any implementing legislation or regulation.

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

For the purposes of this Condition 12, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due, and is available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 13 below.

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

13 Notices

The Bank 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 Preferred Securities are for the time being listed and/or admitted to trading.

So long as the Preferred Securities are listed on AIAF, to the extent required by the applicable regulations, the Bank shall ensure that (i) the communication of all notices will be made public to the market through a relevant event announcement (*hecho relevante*) to be filed with the CNMV and to be published at the CNMV's official website at www.cnmv.es and (ii) all notices to the Holders will be published in the official bulletin of AIAF (*Boletín de Cotización de AIAF*).

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. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Bank may approve.

In addition, so long as the Preferred Securities are represented by book-entries in Iberclear, all notices to Holders shall be made through Iberclear for on transmission to their respective accountholders.

14 Prescription

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

15 Governing Law and Jurisdiction

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

15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law, nothing contained in this Condition 15 shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

Ibercaja intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.

TAXATION

Spanish tax considerations

The following summary describes the main Spanish tax implications arising in connection with the acquisition and holding of the Preferred Securities by individuals or entities who are the beneficial owners of the Preferred Securities. The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain, and it is not intended to be, nor should it be construed to be, legal or tax advice, and does not address all the tax consequences applicable to all categories of investors, some of which (such as look through entities or Holders by reason of employment) may be subject to special rules.

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

Prospective purchasers of the Preferred Securities should consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of the Preferred Securities.

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, as well as Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011 of 29 July ("**Royal Decree 1065/2007**");

(b) for individuals resident for tax purposes in Spain who are PIT taxpayers, Law 35/2006, of 28 November, on the PIT and on the partial amendment of the Corporate Income Tax Law, Non-Resident Income Tax Law and Wealth Tax Law, as amended (the "**PIT Law**"), and Royal Decree 439/2007, of 30 March, approving the PIT Regulations, as amended (the "**PIT Regulations**"), along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended;

(c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax ("**CIT**") taxpayers, Law 27/2014, of 27 November, on CIT, as amended (the "**CIT Law**"), and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations, as amended (the "**CIT Regulations**"); and

(d) for individuals and entities who are not resident for tax purposes in Spain which are Non-Resident Income Tax ("**NRIT**") taxpayers, Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, as amended ("**NRIT Law**") and Royal Decree 1776/2004, of 30 July, promulgating the NRIT Regulations, as amended ("**NRIT Regulations**") along with Law 19/1991, of 6 June, on Wealth Tax as amended and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended.

Tax treatment of the Preferred Securities

Indirect taxation

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

The Issuer understands that the Preferred Securities 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.

Direct taxation

(a) 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 Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000; 21 per cent. for taxable income between €6,000.01 and €50,000 and 23 per cent. for taxable income in excess of €50,000.

Income from the transfer of the Preferred Securities is computed as the difference between their transfer value and their acquisition or subscription value. Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income.

Negative income derived from the transfer of the Preferred Securities, in the event that the investor had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, shall be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

A (current) 19 per cent. withholding on account of PIT will be imposed by the Issuer on interest payments as well as on income derived from the redemption or repayment of the Preferred Securities, by individual investors subject to PIT.

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

(i) registered by way of book entries; and

(ii) negotiated in a Spanish official secondary market (*mercado secundario oficial*), such as AIAF.

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

(i) the acquirer would be a non-resident or a CIT taxpayer;

(ii) the explicit yield derived from the Preferred Securities being transferred is exempt from withholding tax.

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

Reporting Obligations

The Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are individuals resident in Spain for tax purposes.

Wealth Tax (Impuesto sobre el Patrimonio)

In accordance with Article 4 of Royal Decree-Law 3/2016, a full exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such exemption is revoked.

If it were revoked, individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*). Therefore, they should take into account the value of the Preferred Securities which they hold as of 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. The applicable rates range between 7.65 per cent. and 81.6 per cent., although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

(b) Spanish tax resident legal entities

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities are subject to CIT at the current general flat tax rate of 25 per cent.

However, this general rate will not be applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions (which will be taxed at the rate of 30 per cent.).

No withholding on account of CIT will be imposed on interest payments or on income derived from the redemption or repayment of the Preferred Securities, by Spanish CIT taxpayers provided that certain requirements are met (including that the Iberclear Members that have the Preferred Securities 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, provide the Issuer, in a timely manner, with a duly executed and completed Payment Statement, as defined below). See "*—Compliance with Certain Requirements in Connection with Income Payments*".

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

(i) registered by way of book entries; and

(ii) negotiated in a Spanish official secondary market, such as AIAF.

Reporting Obligations

The Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are legal persons or entities resident in Spain for tax purposes.

Wealth Tax (Impuesto sobre el Patrimonio)

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

(c) Individuals and legal entities that are not tax resident in Spain

(i) Investors that are not resident in Spain for tax purposes, acting in respect of the Preferred Securities through a permanent establishment in Spain

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

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

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

Reporting Obligations

The Issuer will comply with the reporting obligations set forth under Spanish tax laws with respect to beneficial owners of the Preferred Securities that are individuals or legal entities not resident in Spain for tax purposes and that act with respect to the Preferred Securities through a permanent establishment in Spain.

(ii) Investors that are not resident in Spain for tax purposes, not acting in respect of the Preferred Securities through a permanent establishment in Spain

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

Both interest payments periodically received under the Preferred Securities and income derived from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Preferred Securities, through a permanent establishment in Spain, are exempt from NRIT and therefore no withholding on account of NRIT will be levied on such income provided certain requirements are met.

In order to be eligible for the exemption from NRIT, certain requirements must be met (including that, in respect of interest payments from the Preferred Securities carried out by the Issuer, the Iberclear Members that have the Preferred Securities 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, provide the Issuer, in a timely manner, with a duly executed and completed Payment Statement, as defined below), as set forth in Article 44 of Royal Decree 1065/2007. See "*—Compliance with Certain Requirements in Connection with Income Payments*".

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 under the Preferred Securities, the Issuer will withhold Spanish withholding tax at the applicable rate (currently 19 per cent.) on such payment of income on the Preferred Securities and the Issuer will not pay additional amounts with respect to any such withholding tax.

A beneficial owner who is not resident in Spain for tax purposes and entitled to exemption from NRIT, but to whom payment was not exempt from Spanish withholding tax due to a failure on the delivery of a duly executed and completed Payment Statement to the Issuer, will receive a refund of the amount withheld, with no need for action on the beneficial owner's part, if the Issuer receives a duly executed and completed Payment Statement no later than the tenth calendar day of the month immediately following the relevant payment date.

In addition, beneficial owners of the Preferred Securities 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 NRIT Law and its regulations.

Wealth Tax (*Impuesto sobre el Patrimonio*)

In accordance with Article 4 of Royal Decree-Law 3/2016, a full exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such exemption is revoked.

If it were revoked, individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax during the tax year 2018, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

However, non-Spanish resident individuals will be exempt from Wealth Tax in respect of the Preferred Securities which income is exempt from NRIT as described above.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

Non-Spanish resident legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area Member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to NRIT. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

(d) Compliance with certain requirements in connection with income payments

As described under "*Spanish tax resident legal entities—Corporate Income Tax (Impuesto sobre Sociedades)*", "*—Individuals and legal entities that are not tax resident in Spain*", provided the conditions set forth in Law 10/2014 are met, income payments made by the Issuer in respect of the Preferred Securities for the benefit of Spanish CIT taxpayers, or for the benefit of non-Spanish tax resident investors will not be subject to Spanish withholding tax, provided that the Iberclear Members that have the Preferred Securities 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**") (which is attached as Annex I), in accordance with section 4 of Article 44 of Royal Decree 1065/2007, containing the following information:

(i) Identification of the Preferred Securities.

(ii) Total amount of the income paid by the Issuer.

(iii) Amount of the income corresponding to individual residents in Spain that are PIT taxpayers.

(iv) 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 Preferred Securities, such payment will be made net of Spanish withholding tax, currently at the rate of 19 per cent. If this were to occur, affected beneficial owners 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, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish 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 the Iberclear Members in connection with each payment of income under the Preferred Securities. 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.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the

Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Preferred Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Preferred Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Preferred Securities, neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

Set out below is Annex I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Annex I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of the Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

ANNEX I

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal ( )[1], en nombre y representación de (entidad declarante), con número de identificación fiscal ( )[1] y domicilio en ( ) en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number ( )[1], in the name and on behalf of (entity), with tax identification number ( )[1] and address in ( ) as (function – mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book-entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores……

1.1 Identification of the securities……

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados) ……

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora ……

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved ……

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2 En relación con el apartado 5 del artículo 44.

2 In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores ……

2.1 Identification of the securities……..

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) ……

2.2 Income payment date (or refund if the securities are issued at discount or are segregated) ……

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados ……

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en……a … de……de …

I declare the above in …… on the … of …… of …

(1) **En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**

(1) In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

SUBSCRIPTION AND SALE

Pursuant to the terms and conditions set forth in a subscription agreement dated 28 March 2018 (the "**Subscription Agreement**"), the Bank agreed to issue the Preferred Securities on the Closing Date, and the Joint Lead Managers agreed to procure subscribers, or subscribe and pay for the Preferred Securities on the Closing Date at their issue price of 100 per cent. of the aggregate principal amount.

The Bank paid to the Joint Lead Managers a customary combined management and underwriting commission.

The Subscription Agreement provides that the Bank will indemnify each Joint Lead Manager against certain liabilities.

The Preferred Securities are newly issued securities for which there is currently no market. The Issuer will use all reasonable endeavours to procure that the Preferred Securities are admitted to listing on AIAF within 30 days of the Closing Date and to maintain such admission until none of the Preferred Securities is outstanding.

Selling Restrictions

General

Each Joint Lead Manager has undertaken to the Bank that it has complied with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Preferred Securities or has in its possession or distributes any offering material or the Prospectus, in all cases at its own expense.

Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Preferred Securities or possess, distribute or publish any offering material relating to the Preferred Securities or this Prospectus, in all cases at their own expense.

United States

The Preferred Securities have not been and will not be registered under the U.S. Securities Act and have not been 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 in certain transactions exempt from the registration requirements of the U.S. Securities Act. Capitalised terms used in this paragraph have the meanings given to them under Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering of the Preferred Securities and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the offering of the Preferred Securities, an offer or sale of Preferred Securities within the United States by any dealer that is not participating in the offering of the Preferred Securities may violate the registration requirements of the U.S. Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and each other Joint Lead Manager that:

(i) ***Financial Promotion*****:** it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services Markets Act 2000 —FSMA) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) ***General Compliance*****:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the United Kingdom.

Spain

Each of the Joint Lead Managers has represented and agreed that the Preferred Securities have not been offered or sold in Spain other than by institutions authorised under the Spanish Securities Market Law, and related legislation, to provide investment services in Spain, and as agreed between the Issuer and the Joint Lead Managers, offers of the Preferred Securities in Spain have only been directed specifically at or made to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Preferred Securities to any retail investor in the EEA. For the purposes of this provision:

the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

MARKET INFORMATION

Summary of Clearance and Settlement Procedures

Below is a brief summary of the Spanish clearance and settlement procedures applicable to book-entry securities such as the Preferred Securities of Ibercaja.

Notwithstanding this summary, it should be noted that the Spanish clearing, settlement and recording system of securities transactions has undergone a significant reform to align it with the EU practices and standards and prepare it for the implementation of future integration projects. In any case, it should be emphasised that, as of the date of this Prospectus, the procedures established for fixed-income securities remain practically the same.

Law 32/2011 of 4 October which amended Law 24/1988 of 28 July on the securities market ("**Law 32/2011**"), anticipated and set the master plan of the future Spanish clearing, and recording system providing for certain changes that are being implemented and that will modify the system and allow for the integration of the post-trading Spanish systems into the system TARGET2 Securities. Law 24/1988 was repealed by the restated text of the Spanish Securities Market Law but the amendments introduced by Law 32/2011 are duly reflected in this restated law.

Additionally, Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July on improving securities settlement in the EU 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 must be settled by no later than the second business day following the relevant transaction, subject to certain exemptions. In this regard, since October 2014 transactions affecting debt securities settled through Iberclear are generally settled two business days after they have been made.

In this regard, the Spanish clearing, settlement and recording system has been recently adapted by Law 11/2015 and Royal Decree 878/2015, of 2 October, to the provisions set forth in Regulation 909/2014.

Following this reform, which implementation was completed by 18 September 2017, the Spanish clearing, settlement and registry procedures of securities transactions allows the connection of the post-trading Spanish systems to the European system TARGET2 Securities (the "**Reform**").

The Reform has introduced three main changes that, in turn, involve a number of operating modifications. These changes include (i) a new recording system based on balances, (ii) the introduction of a central clearing counterparty (BME Clearing, S.A., "**BME Clearing**" or the "**CCP**"), and (iii) the 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 has been implemented in two phases:

- The first phase was implemented on 27 April 2016 and set up the new clearance and settlement system for equity securities, including the creation of BME Clearing, a CCP for post-trade operations compatible with the TARGET2 Securities system (messages, account structure, definition of operations, etc.). From 3 October 2016, with respect to transactions carried out on 29 September 2016, the new settlement and registration platform (ARCO) operates under a "T+2 Settlement Standard" by which any transactions must be settled within two stock-exchange business days following the date on which the relevant transaction was completed.

- The second phase was implemented in September 2017 upon Iberclear's connection to the TARGET2 Securities system. As a result, fixed-income securities were transferred to the new ARCO platform.

Since that date the settlement and registration system for both equity and fixed-income securities are unified.

Iberclear and BME Clearing

Iberclear is the Spanish central securities depository in charge of both the register of securities held in book-entry form, and the settlement of all trades from the Spanish Stock Exchanges, Latibex (the Latin American stock exchange denominated in Euro), the Book-Entry Public Debt Market, the Alternative Stock Market (MAB), Alternative Fixed Income Market (MARF) and AIAF. To achieve this, Iberclear uses the technical platforms named ARCO.

Iberclear and BME Clearing are owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a holding company, which holds a 100 per cent. interest in each of the Spanish official secondary markets and settlement systems.

The securities recording system of Iberclear is a two tier level registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records correspond to the participating entities (*entidades participantes*) in Iberclear.

Access to become a participating entity is restricted to (i) credit institutions, (ii) investment services companies which are authorised to render custody and administration of financial instruments, (iii) the Bank of Spain, (iv) the General Administration and the General Social Security Treasury, (v) other duly authorised central securities depositories and central clearing counterparties and (vi) other public institutions and private entities when expressly authorised to become a participating entity in central securities depositories.

The central registry managed by Iberclear reflects (i) one or several proprietary accounts which show the balances of the participating entities' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the participating entities 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 of orders. Each participating entity, in turn, maintains the detail records of the owners of the securities or the shares held in their general third-party accounts.

According to the above, Spanish law considers the owner of the securities to be:

- the participating entity appearing in the records of Iberclear as holding the relevant securities in its own name;
- the investor appearing in the records of the participating entity as holding the securities; or
- the investor appearing in the records of Iberclear as holding securities in a segregated individual account.

BME Clearing is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions vis-à-vis the participants designated in such buy or sell instructions. The CCP then generates and send to Iberclear the relevant settlement instructions.

The settlement and book-entry registration platform managed by Iberclear, which operates under the trade name of ARCO (for both equity securities and fixed-income securities as from September 2017), receives the settlement instructions from BME Clearing and forwards them to the relevant participating entities involved in each transaction. ARCO operates under a T+2 settlement standard, by which any transactions must be settled within two business days following the date on which the transaction was completed.

To evidence title to securities, at the owner's request the relevant participating entity must issue a legitimation certificate (*certificado de legitimación*). If the owner is a participating entity or a person holding securities in a

segregated individual account, Iberclear is in charge of the issuance of the certificate regarding the securities held in their name.

Market Information in relation to the Preferred Securities

Iberclear Settlement of securities traded in AIAF

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

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

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

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

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

Settlement Cycles: The ARCO Platform

The ARCO platform offers both settlement in cycles and in real-time.

Real-time settlement (Madrid time):

(a) Against payment trades: from 07:00 am to 4:00 pm;

(b) Free of payment trades: from 07:00 am to 6:00 pm.

The settlement of transactions that settle via real-time procedure will take place every 8 minutes.

Settlement in cycles (Madrid time):

- Free and against payment trades: from 08:00 am to 3:00 pm. There are five cycles: at 08:00 am, 10:00 am, 11:30 am, 1:00 pm and 3:00 pm. In addition, there is one cycle at 2:00 pm (only for bilateral transactions free and against payment not cleared through a CCP) or 3:45 pm (for existing last resort loans) and 5:00 pm (only for bilateral transactions free of payment not cleared through CCP).
- Iberclear has an additional settlement cycle (*ciclo de repesca*) that allows the matching of trades from 3:00 pm to 3:45 pm whenever a Spanish custodian has a last resource loan in the market. Therefore, if Iberclear opens this extra settlement cycle, transactions that settle in cycles can be settled as of that time if the delivering party has sufficient position (Iberclear will start to send settlement confirmations after 3:45 pm for those trades that are matched from 3:00 pm to 3:45 pm).

Euroclear and Clearstream

Investors who do not have, directly or indirectly through their custodians, a participating account with Iberclear may hold their investment in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with participating entities in Iberclear.

ADDITIONAL INFORMATION

Responsibility Statement

The Issuer and the undersigned, Mr. Francisco José Serrano Gill de Albornoz, in his capacity as General Secretary - Deputy General Manager (*Secretario General - Director General Adjunto*) of the Issuer and acting under a special power of attorney granted by the Board of Directors of the Issuer, accepts responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Listing

This Prospectus is expected to be approved by the CNMV in its capacity as competent authority under the Prospectus Directive and relevant implementing measures in Spain. Application is expected to be made for the Preferred Securities to be admitted to trading on AIAF. The Preferred Securities may also be admitted to trading on any other secondary market as may be agreed by the Issuer.

Authorisation

The creation and issue of the Preferred Securities have been authorised by resolutions of the Board of Directors dated 23 February 2018 acting by delegation of a resolution of the general shareholders' meeting held on 30 August 2017.

Significant change

Since 31 December 2017, there has been no significant change in the financial or trading position of the Issuer.

Trend information

Since 31 December 2017 there has been no material adverse change in the prospects of the Issuer.

The sections "*Risk Factors–Risks relating to the Bank's Financial Activity*", "*Risk Factors–Risks relating to macroeconomic conditions*" and "*Risk Factors–Legal and regulatory Risks*" of this Prospectus include a detailed description of the factors and uncertainties which could have a material effect on the Issuer's prospects.

Independent auditors

The consolidated financial statements of the Group for the years ended 31 December 2017 and 31 December 2016 have been audited by PricewaterhouseCoopers Auditores, S.L. ("**PwC**"), independent auditors, who issued unqualified reports. PwC's office is at Paseo de la Constitución 4, 7ª planta 50008 Zaragoza (Spain) and is registered with the Official Registry for Auditors (*Registro Oficial de Auditores de Cuentas* (ROAC)) under number S0242.

Third party information

Information included in this Prospectus sourced from a third party 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.

Documents on display

Physical copies of the following documents may be inspected during normal business hours at the offices of the Issuer at Plaza Basilio Paraíso 2, 50008 Zaragoza, Spain, for the life of this Prospectus. Likewise, electronic copies of the following documents (except for the deed of incorporation) may be inspected (together with English translations thereof), on the Issuer's website www.ibercaja.com/en/:

(a) the bylaws (*estatutos sociales*) of the Issuer;

(b) the deed of incorporation (*escritura de consitución*) of the Issuer;

(c) the audited consolidated annual accounts of the Group for the year ended 31 December 2017 together with the audit report; and

(d) the audited consolidated annual accounts of the Group for the year ended 31 December 2016 together with the audit report.

(e) the audited consolidated annual accounts of the Group for the year ended 31 December 2015 together with the audit report.

The documents referred to in paragraphs (c), (d) and (e) above are also available on the CNMV website (www.cnmv.es).

The translation into English of the bylaws of the Issuer is a direct and accurate translation of the corresponding document. In the event of any discrepancy between the English language version and the original Spanish language version, the original Spanish language version shall prevail.

Statement of the capacity in which the advisers have acted

In addition to the Joint Lead Managers, the following entities have provided advisory services in relation with the offering of the Preferred Securities:

- Linklaters, S.L.P. has acted as legal adviser to the Issuer on Spanish and English laws; and
- Clifford Chance, S.L.P. has acted as legal adviser to the Joint Lead Managers on Spanish and English laws.

Paying agency

All payments under the Conditions will be carried out directly by the Issuer through Iberclear.

Material contracts

There are no material contracts 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.

Yield

On the basis of the issue price of the Preferred Securities of 100 per cent. of their principal amount, the annual yield of the Preferred Securities for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 7 per cent. This yield was calculated on the Closing Date and is not an indication of future yield.

Clearing: ISIN and Common Code

The Preferred Securities will be admitted to listing on AIAF and have been accepted for clearance through Iberclear. The Preferred Securities bear the ISIN ES0844251001 and the Common Code 180306382.

Stabilisation

In connection with the issue of the Preferred Securities, Barclays Bank PLC (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and any other applicable laws and rules.

Interests of natural and legal persons involved in the offer of the Preferred Securities

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

Other relationships

Certain 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 its affiliates in the ordinary course of business. 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. Certain Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Preferred Securities issued under the Prospectus. Any such short positions could adversely affect future trading prices of Preferred Securities issued under the Prospectus. The Joint Lead Managers and their 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.

Expenses related to the admission to trading

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

Type of expense	Euro (estimated amount)
Charges and fees of AIAF and Iberclear	18,000
CNMV fees (listing)	35,000
Total	53,000

Credit ratings assigned to an issuer or its debt securities at the request or with the co-operation of the Issuer in the rating process

As of the date of this Prospectus, Ibercaja has been assigned the following ratings by the following credit rating agencies:

Agency(1)	Review date	Short-term rating	Long-term rating	Outlook
Moody's	10 May 2017	NP	Ba3	Stable
S&P	9 February 2017	B	BB+	Positive
Fitch	27 March 2018	B	BB+	Positive

Note:

(1) Moody's assigns senior debt ratings, whereas S&P, Fitch and DBRS assign issuer ratings.

The Preferred Securities are expected to be rated B- by S&P and B by Fitch.

Each of Moody's, S&P and Fitch is a rating agency established in the EU and registered under the CRA Regulation. A list of registered credit rating agencies is published at the ESMA's website: www.esma.europa.eu.

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. Francisco José Serrano Gill de Albornoz, General Secretary - Deputy General Manager (*Secretario General - Director General Adjunto*) of the Bank, in Zaragoza, on 6 April 2018.

REGISTERED OFFICE OF THE ISSUER

Ibercaja Banco, S.A.
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50008 Zaragoza
Spain

STRUCTURING ADVISOR AND LEAD MANAGER

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United Kindgom

UBS Limited
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LEGAL ADVISORS

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

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28010 Madrid
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To the Joint Lead Managers as to Spanish law and as to English law

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28046 Madrid
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AUDITORS TO THE ISSUER

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