

**C.N.M.V.**

Registros Oficiales

Anotaciones en cuenta

Nº R.O. 16295

COMISIÓN DEL MERCADO DE VALORES

20 SEP. 2019

REGISTRO DE ENTRADA - M.P.

Nº 2019104406



## **Kutxabank, S.A.**

*(incorporated as a limited liability company (sociedad anónima) under the laws of Spain)*

**EUR 500,000,000**

### **Fixed Rate Senior Non Preferred Notes due 25 September 2024**

The issue price of the EUR 500,000,000 Fixed Rate Senior Non Preferred Notes due 25 September 2024 (the "**SNP Notes**") of Kutxabank, S.A. (the "**Issuer**", "**Kutxabank**" or the "**Bank**") is 99.4210 per cent. of their principal amount. The SNP Notes were issued on 25 September 2019 (the "**Issue Date**"). The Bank and its consolidated subsidiaries are referred to herein as the "**Kutxabank Group**" or the "**Group**".

As described in the terms and conditions of the SNP Notes (the "**Conditions**") unless previously redeemed, the SNP Notes will be redeemed at their principal amount on 25 September 2024. The SNP Notes may be redeemed at the option of the Bank in whole, but not in part, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, subject to the conditions set out in Condition 4.2 including, without limitation, obtaining prior Supervisory Permission, if a Tax Event or an Disqualification Event occurs (as such terms are defined in the Conditions). See Conditions 4.3 and 4.4 in "*Terms and Conditions of the SNP Notes*".

The SNP Notes bear interest from the Issue Date at the rate of 0.5 per cent. per annum payable annually in arrear on 25 September each year commencing on 25 September 2020. See Condition 3 in "*Terms and Conditions of the SNP Notes*".

Payments on the SNP Notes will be made in Euros without deduction for or on account of taxes imposed or levied by Spain to the extent described under Condition 7 in "*Terms and Conditions of the SNP Notes*".

The payment obligations of the Bank under the SNP Notes on account of principal constitute unsubordinated and unsecured non preferred ordinary claims ("*créditos ordinarios no preferentes*"), as more fully described in Condition 2 in "*Terms and Conditions of the SNP Notes*". The SNP Notes are expected to be eligible for MREL (as defined in section "*Capital, liquidity and funding requirements*") purposes of the Group.

Subject to the prior Supervisory Permission and to compliance with the Applicable Banking Regulations, if a Tax Event or Disqualification Event has occurred and is continuing, the Bank may substitute all (but not some only) of the SNP Notes or vary the terms of all (but not some only) of the SNP Notes, without the consent of the Holders (as defined below), so that they become or remain Qualifying Notes (as defined in the Conditions).

This document (together with the information incorporated by reference) constitutes a listing prospectus (the "**Prospectus**") for the purposes of Article 3 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of the EU of 14 June 2017 (the "**Prospectus Regulation**") and has been prepared in accordance with, and including the information required by Annexes 7 and 15 of Delegated Regulation (EU) 2019/980 of 14 March 2019. This Prospectus has been approved by the *Comisión Nacional de Mercado de Valores* (the "**CNMV**"), which is the Spanish competent authority under the Prospectus Regulation and the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015, of 23 October (the "**Spanish Securities Market Law**"). The CNMV has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation, and such approval should not be considered as an endorsement of the Issuer or the quality of the SNP Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the SNP Notes.

The SNP Notes have been issued in denominations of €100,000. Application has been made for the SNP Notes to be admitted to trading on the Spanish AIAF Fixed Income Securities Market ("**AIAF**"). The SNP Notes may also be admitted to trading on any other secondary market as may be agreed by Kutxabank.

Title to the SNP Notes is evidenced by book entries, and each person shown in the central registry of the Spanish settlement system managed by *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* ("**Iberclear**") and in the registries maintained by the participating entities (*entidades participantes*) in Iberclear ("**Iberclear Members**") as having an interest in the Notes shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Notes recorded therein (a "**Holder**").

The SNP Notes are rated "Baa3" by Moody's Investors Service España, S.A. ("**Moody's**"), "BBB-" by S&P Global Ratings Europe Limited ("**S&P**") and "BBB+" by Fitch Ratings España, S.A.U. ("**Fitch**"). Moody's, S&P and Fitch are established in the European Union ("**EU**") and are registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the "**CRA Regulation**"). Moody's, S&P and Fitch appear on the latest update of the list of registered credit rating agencies (as of 5 July 2019) on the European Securities and Markets Authority ("**ESMA**") website.

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

**The SNP Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. Prospective purchasers of the SNP Notes should ensure that they understand the nature of the SNP Notes and the extent of their exposure to risks and that they consider the suitability of the SNP Notes as an investment in the light of their own circumstances and financial condition.**

An investment in the SNP Notes involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 10.

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

*Joint Lead Managers*

**Banco Santander  
Banco Bilbao Vizcaya Argentaria, S.A.**

**Barclays  
Crédit Agricole CIB**

**Natixis**

*Co-Manager*

**Norbolsa**

[•] 2019

## IMPORTANT NOTICES

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the SNP Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the joint lead managers named under "*Subscription and Sale*" below (the "**Joint Lead Managers**") or the co-manager named under "*Subscription and Sale*" below (the Co-Manager, and together with the Joint Lead Managers, the "**Managers**").

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

Each potential purchaser of SNP Notes should determine for itself the relevance of the information contained or incorporated by reference in this Prospectus and its purchase of SNP Notes should be based upon such investigation as it deems necessary. None of the Managers undertakes to review the financial condition or affairs of Kutxabank or the Kutxabank Group during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the SNP Notes of any information coming to the attention of the Managers.

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

The distribution of this Prospectus and the offering, sale and delivery of SNP Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of SNP Notes and on distribution of this Prospectus and other offering material relating to the SNP Notes, see "*Subscription and Sale*".

In particular, the SNP Notes have not been and will not be registered under the United States Securities Act of 1933 (the "**U.S. Securities Act**") and are subject to United States tax law requirements. Subject to certain exceptions, SNP Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended. References to "**billions**" are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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

Potential investors are advised to exercise caution in relation to any purchase of the SNP Notes. If a potential investor is in any doubt about any of the contents of this Prospectus, it should obtain independent professional advice. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein.

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the SNP Notes, the merits and risks of investing in the SNP Notes and the information contained or incorporated by reference in this Prospectus, taking into account that the SNP Notes 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 SNP Notes and the impact the SNP Notes 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 SNP Notes, including where the currency for payments in respect of the SNP Notes is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the SNP Notes, including the provisions relating to redemption or substitution of the SNP Notes 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 SNP Notes unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the SNP Notes will perform under changing conditions, the resulting effects on the value of the SNP Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The SNP Notes are rated "Baa3" by Moody's, "BBB-" by S&P and "BBB+" by Fitch. Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the SNP Notes does not address the likelihood that interest (including any additional amounts payable in accordance with Condition 7) or any other payments in respect of the SNP Notes will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

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 SNP Notes and should determine the suitability of the investment in light of its own circumstances. The Bank 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.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The SNP Notes 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**"). 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(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, 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. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering

or selling the SNP Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the SNP Notes 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 SNP Notes has led to the conclusion that: (i) the target market for the SNP Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the SNP Notes to eligible counterparties and professional clients are appropriate. The target market assessment indicates that SNP Notes are incompatible with the needs, characteristic and objectives of clients which have no risk tolerance or are seeking on-demand full repayment of the amounts invested. Any person subsequently offering, selling or recommending the SNP Notes (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 SNP Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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## OVERVIEW

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

*Words and expressions defined in the "Terms and Conditions of the SNP Notes" below have the same meanings in this overview.*

<b>Issuer:</b>	Kutxabank, S.A.
<b>Joint Lead Managers:</b>	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank and Natixis.
<b>Co-Manager:</b>	Norbolsa, S.V., S.A.
<b>The SNP Notes:</b>	EUR 500,000,000 Fixed Rate Senior Non Preferred Notes due 25 September 2024.
<b>Issue Price:</b>	99.4210 per cent. of the principal amount of the SNP Notes.
<b>Issue Date:</b>	25 September 2019.
<b>Issue size:</b>	EUR 500,000,000.
<b>Use and estimated net amount of Proceeds:</b>	Net proceeds: 497,105,000. The Issuer intends to use the net proceeds from the issue for general corporate purposes. See " <i>Use and estimated amount of Proceeds</i> ".
<b>Interest:</b>	The SNP Notes bear interest on their outstanding principal amount at the rate of 0.5 per cent. per annum from (and including) the Issue Date in accordance with the provisions of this Condition 3. Interest shall be payable on the SNP Notes annually in arrear on 25 September in each year, with the first Interest Payment Date falling on 25 September 2020. For further information, see Condition 3. Payments on the SNP Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under Condition 7 in the Conditions.
<b>Status:</b>	The payment obligations of the Bank under the SNP Notes on account of principal constitute direct, unconditional, unsubordinated and unsecured non preferred ordinary claims (" <i>créditos ordinarios no preferentes</i> ") under Additional Provision 14.2° of Law 11/2015. According to Additional Provision 14.2° of Law 11/2015, upon the insolvency of the Bank, the SNP Notes will rank below any Senior Preferred Liabilities of the Bank and accordingly, claims in respect of the SNP Notes shall be paid after payment of any such Senior Preferred Liabilities of the Bank. For further information, see Condition 2.

<b>Form and Denomination:</b>	The SNP Notes have been issued in book-entry form in the denomination of EUR 100,000.
<b>Final Redemption:</b>	25 September 2024.
<b>Optional Redemption:</b>	<p>The SNP Notes are also redeemable on or after the Issue Date at the option of the Bank in whole but not in part, at any time, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption if there is a Disqualification Event or a Tax Event, subject, in each case, to the prior Supervisory Permission and otherwise in accordance with the Applicable Banking Regulations then in force.</p> <p>For further information, see Conditions 4.2, 4.3 and 4.4.</p>
<b>Substitution and Variation:</b>	<p>Subject to Supervisory Permission and otherwise in accordance with the Applicable Banking Regulations, if a Disqualification Event or Tax Event has occurred and is continuing, the Bank may at any time substitute all (but not some only) of the SNP Notes or vary the terms of all (but not some only) of the SNP Notes, without the consent of the Holders, so that they become or remain Qualifying Notes.</p> <p>For further information, see Condition 4.5.</p>
<b>Waiver of set-off:</b>	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 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.
<b>Events of default:</b>	<p>There are no events of default under the SNP Notes which could lead to an acceleration of the SNP Notes save if an order is made by any competent court commencing insolvency proceedings against the Bank or if any order is made by any competent court or resolution passed for the liquidation or dissolution of the Bank.</p> <p>For further information, see Condition 6.</p>
<b>Rating:</b>	The SNP Notes are rated "Baa3" by Moody's, "BBB-" by S&P and "BBB+" by Fitch.
<b>Withholding Tax:</b>	<p>All payments of interest and any other amounts payable (excluding, for the avoidance of doubt, any repayment of principal) in respect of the SNP Notes 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 interest and any other amounts (excluding for the avoidance of doubt, any repayment of principal), the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such payments of interest and any other amounts had no such</p>



withholding or deduction been required, subject to the exceptions provided in Condition 7.

For further information, see Condition 7.

**Governing Law:**

The SNP Notes will be governed by Spanish law.

**Listing and Trading:**

Application have been made for the SNP Notes to be admitted to listing on AIAF.

**Clearing Systems:**

Iberclear.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the SNP Notes in the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the U.S Securities Act apply. The SNP Noes have not and will not be eligible for sale the United States under Rule 144A of the U.S. Securities Act. See "*Subscription and Sale*".

**Risk Factors:**

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

## RISK FACTORS

*Kutxabank declares that the information contained in this Prospectus includes the instructions and recommendations received, when appropriate, from the prudential supervisory authorities (i.e. European Central Bank and Bank of Spain) and that may have an impact on the financial statements and risks described hereinafter.*

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

*Only risks which are specific to the Issuer and to the SNP Notes are included herein as required by the Prospectus Regulation. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial or that apply generally to the banking industry (such as reputational risk, risk related to the reduction of credit ratings, risk arising from increasing competition from larger and stronger banks and non-bank competitors, and security risks, including cyber-attacks), for which reason have not been included herein, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the SNP Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the SNP Notes is suitable for them in light of the information in this Prospectus and their personal circumstances. Risks that apply generally to negotiable securities such as those related to the secondary market in general (for instance, illiquidity or price fluctuations) and those related to the credit ratings assigned to the SNP Notes (such as changes in the credit ratings or the assignment of unsolicited ratings) have not been included herein. However, such additional risks may affect the value and liquidity of the SNP Notes.*

### **Risks Relating to the Issuer**

#### **Business and financial risks**

##### ***Credit risk***

The Group is exposed to the creditworthiness of its customers and counterparties. Credit risk is defined as potential losses in respect of the full or partial breach of the debt repayment obligations of customers or counterparties (including, but not limited to, the insolvency of a counterparty or debtor), and also includes the value loss as a consequence of the credit quality of customers or counterparties. Credits to clients and fixed income securities represented 70.49% and 6.75%, respectively, of the total assets of the Group<sup>1 2</sup> as at 30 June 2019 (70.64% and 6.47%, respectively, as at 31 December 2018, and 73.13% and 4.82%, respectively, as at 31 December 2017). Although, in some cases, compliance with the referred contractual obligations is secured, collateral and security provided to the Group may be insufficient.

Payment defaults by clients may arise from events and circumstances that are unforeseeable or difficult to predict or detect. Market turmoil and economic weakness in Spain, and particularly in the Basque Country region and in Cordoba and Jaen provinces (where the Group has a significant exposure as it is shown by the gross income obtained by the retail commercial network in the Basque Country which amounts to EUR 420.04 million (representing 36.8% of the Group's gross income) and EUR 174.87 million in the case of Andalusia (representing 15.3% of the Group's gross income) as of the year ended 31 December 2018, respectively) (please see "*Description of the Issuer— Kutxabank Group's Products and Services*" and

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<sup>1</sup> Credits to clients to total assets is an alternative performance measure ("APM"), the definition, explanation, use and reconciliation of which is set out in "*Description of the Issuer—Alternative Performance Measures*".

<sup>2</sup> Fixed income securities to total assets is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of the Issuer—Alternative Performance Measures*".

"Description of the Issuer— Branches and Distribution Channels"), could have a material adverse effect on the liquidity, business and financial conditions of the Group's clients, which could in turn impair the Group's loan portfolio, affecting the recoverability and value of the Group's assets and requiring an increase in provisions for bad and doubtful debts and other provisions.

Non-performing or low credit quality loans could negatively impact the Group's results of operations. Although as at 30 June 2019, the cost of credit risk was of 7 basis points<sup>3</sup>, the Issuer cannot assure that it will be able to effectively control the level of the impaired loans in the Group's loan portfolio. As at 30 June 2019, the non-performing loans ("NPLs") amounted to EUR 1,526.6 million (EUR 1,686.11 million as at 31 December 2018 and EUR 2,176.50 million as at 31 December 2017), and the NPL Ratio<sup>4</sup> of the Group was 3.38% (3.86% as at 31 December 2018 and 4.89% as at 31 December 2017). As at 30 June 2019 the non-performing assets ("NPA")<sup>5</sup> of the Group amounted to EUR 3,122.5 million (EUR 3,307.4 million as at 31 December 2018 and EUR 3,999.73 million as at 31 December 2017), representing 2.50% of the total assets of the Group<sup>6</sup> (2.88% as at 31 December 2018 and 3.74% as at 31 December 2017). As at 30 June 2019, the NPL coverage<sup>7</sup> of the Group was 56.69% and the coverage of the acquired or repossessed assets<sup>8</sup> was 45.31% (53.81% and 43.66%, respectively as at 31 December 2018, and 42.88% and 49.78%, respectively, as at 31 December 2017). If the Group was unable to control the level of its non-performing or poor credit quality loans, this could adversely affect the Group's financial condition and results of operations since these assets do not generate any income but drain resources related to the recovery process in addition to the explicit costs that might be materialised through the constitution of provisions and other impairments.

In addition, the Group routinely transacts with counterparties in the financial services industry; 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. Also, those types of rumours or concerns have arisen and may keep arising in connection with specific geographies or economic sectors at which the Group is exposed, which may derive in a reduction in the value of the relevant Group assets.

Failure of third parties to meet their contractual obligations to the Group or the incapability of the Group to control the level of its non-performing or poor credit quality loans 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 also 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 the CRD IV Directive and the CRR (as defined in section "Capital, liquidity and funding requirements"). 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 reduce the

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<sup>3</sup> Cost of credit risk is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

<sup>4</sup> The NPL Ratio is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

<sup>5</sup> NPAs is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

<sup>6</sup> NPAs to total assets is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

<sup>7</sup> NPL coverage is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

<sup>8</sup> Coverage of the acquired or repossessed assets is an APM, the definition, explanation, use and reconciliation of which is set out in "Description of the Issuer—Alternative Performance Measures".

Group's capital adequacy ratios and limit its lending or investments in other operations (please see "*Regulatory requirements*" below).

### ***Interest rate risk***

As a financial intermediary, the Group is exposed to the risk of disruptions in the balance between lending and borrowing conditions. Interest rate risk can be defined as the possibility of the Group incurring losses as a result of the effect of adverse movements in interest rates. Changes in interest rates may affect the net interest income of the Group (which is the difference between the interest due on the Group's interest-earning assets —81.41% of the customer loans are floating rate loans as at 31 December 2018— and interest paid on its interest-bearing liabilities —15.45% of the deposits are floating rate deposits as at 31 December 2018), and may also affect the current value of future cash flows of a financial structure, thus, affecting the economic value of the Group and its solvency. There are ways to mitigate this risk, but full mitigation of this risk would significantly limit the possibility of making the balance sheet exposures profitable.

Interest rates are highly sensitive to many factors beyond the Group'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.

In addition, the Group's high proportion of loans referenced to floating interest rates makes debt service on such loans more vulnerable to changes in interest rates (please see "*Credit risk*" below). Also, any rise in interest rates could reduce the demand for credit, as well as contribute to an increase in the credit default rate.

Consequently, fluctuations in interest rates may have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Liquidity risk***

Liquidity risk can be defined as the possibility of the Group incurring losses as a result of 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, including 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 its assets. Imbalances between the maturity of the assets of the Group and the maturity of the liabilities of the Group may result in increased funding needs for the Group. Also, instruments available to mitigate liquidity problems may be expensive, thus, impacting ultimately the Group's profitability. This may also have an impact on the Group's strategic position.

The ability of the Group to obtain or access funding could be damaged by factors that are not under the control of Kutxabank, such as general market conditions, alterations or closures in the financial markets, negative prospects of the sectors to which the Group grants a relevant number of its loans, uncertainty as to the creditworthiness of the clients of the Group or confidence in the Group. If there were a deterioration in the situation of the international capital markets or worsening in the credit ratings of the Issuer, it would likely be more difficult for the Group to obtain funding in such markets (for a description of the Issuer's credit ratings, please see "*Description of the Issuer - Credit Rating*"). Furthermore, given that the Issuer is a Spanish credit institution, a crisis in Spanish sovereign bonds could increase its financing costs (please see "*Sovereign risk*" below).

The main sources of liquidity of the Group are deposits which represent 94.58% of its total funding sources<sup>9</sup> as at 30 June 2019 (93.87% as at 31 December 2018), being the remaining 5.42% (6.13% as at 31 December 2018) mainly covered bonds and ECB funding (on average, this remaining wholesale markets

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<sup>9</sup> Deposits to total funding is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of the Issuer—Alternative Performance Measures*".

funding represented 6.90% of the total funding in the one-year period ended 30 June 2019 and 9.66% of the total funding in the one-year period ended 31 December 2018, with the ECB funding representing 0.20% and 0.57% of the total assets in average during such periods, respectively).

In addition, the liquidity risk can be exacerbated by operational factors such as an over-reliance on a particular source of funding. For example, if the Group changed its funding structure to an over-reliance on wholesale capital markets, this new structure could carry certain risks arising, for example, from adverse scenarios where the normal refinancing of capital market debt instruments was impaired (particularly taking into account that the Issuer is not a publicly-traded entity). In addition, the funding structure of 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.

Any limitation in access to liquidity and funding may have a material adverse effect on the Group's business, financial condition and results of operations.

### ***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. Market risk can be defined as the possibility of the Group incurring losses as a result of adverse movements in market prices or rates. In the equity sector in particular, volatility may affect the value of the Group's investments in entities 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. The performance of financial markets may cause changes in the value of the Group's investment, available for sale and trading portfolios.

As at 30 June 2019 the exposure of the Group subject to market risk amounted to EUR 4,875.63 million in fixed income securities and EUR 1,512.79 million in listed variable income securities (EUR 4,501.33 million and EUR 1,038.28 million, respectively, as at 31 December 2018, and EUR 3,772.75 million and EUR 1,095.83 million, respectively, as at 31 December 2017). A standard measure to evaluate market risk is "**VaR**" (Value at Risk), which intends to show, with a predetermined confidence interval, the maximum potential loss that can arise from a portfolio or group of portfolios over a given time horizon; as at 31 December 2018, the VaR of the fixed income securities and listed variable income securities portfolio (excluding the held-to-maturity portfolio) of the Group, considering a 10-day time horizon and a confidence level of 97.5%, was EUR 79.03 million (EUR 158.08 million as at 31 December 2017).

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. Moreover, monitoring impairments of this type of assets may prove difficult and future impairments may lead to losses that the Group may not anticipate.

Any of the above factors could require the Group to recognise further write-downs or impairment charges. Also, a decrease in the value of the collaterals provided by the Group may require the Group to post additional collateral. As a consequence, adverse movements in market levels and volatility may have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Exposure to the real estate market***

The Kutxabank Group is exposed to the Spanish real estate market both directly (through the real estate assets that it owns) and indirectly (given that real estate assets secure many of its outstanding loans). The aggregated exposure to real estate and developers credit exposure as at 30 June 2019 amounted to EUR 676.68 million, representing 1.11% of the total assets of the Group (EUR 834.58 million and 1.43%, respectively, as at 31 December 2018, and EUR 1,041.35 million and 1.81%, respectively, as at 31 December 2017). 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.

Any deterioration of real estate prices, as well as adverse regulatory developments or changes in government policy relating to any of the foregoing, could have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Actuarial risk***

Among its product and services mix, the Group offers a wide range of insurance products, including life and non-life insurance (please see "*Description of the Issuer — Kutxabank Group's Products and Services — Insurance*"), this insurance business line is subject to the actuarial risk. Actuarial risk is associated with the insurance business within the Group's existing business lines and types of insurance, where the use of models, assumptions and estimates is intensive and have impact on the product pricing policies. Actuarial risk can be defined as the possibility of the Group incurring in a losses as a result of actual experience not matching the assumptions used in the referred models and estimates.

The income generated by the insurance business<sup>10</sup> reached EUR 71.70 million during the six month period ended 30 June 2019, that represents a 13.76% of the total banking business<sup>11</sup> for that period (EUR 135.66 million during the one-year period ended 31 December 2018 and EUR 123.57 million during the one-year period ended 31 December 2017, representing 13.47% and 12.50% for the respective periods).

In addition, under the Solvency II framework, the issuance undertakings of the Group are required to produce estimates that are based on assumptions and this exposes the Group to the risk of these estimates being wrong either because the assumptions were not correct or because new factors not taken into account by the Group arise (please see "*The Group is subject to substantial regulation, and regulatory and governmental oversight*" below).

If actuarial risk was not correctly monitored and managed, it could have a material adverse effect on the Group's business, financial condition and results of operations.

### **Internal operation risks**

#### ***Operational risks***

Operational risks can be defined as the possibility of the Group incurring in losses arising from inadequate or failed internal process (such as financial internal reporting, risk management or compliance processes), processing errors, system failures, low productivity, inadequate qualifications of staff, cyber-attacks, fraud or criminal acts carried out by the Group employees or against the Group, deficient customer service, as well as from external events (such as breakdown in communications or the electrical supply or external system failures (such as administrative or accounting mistakes or errors in the computer or communication systems)). The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented. The implementation of a prior risk assessment is not a sufficient guarantee of an accurate estimate of the costs deriving from such errors.

This type of risk is especially relevant in the banking business because it depends on the ability to process a large number of transactions efficiently and accurately on a daily basis and given the large number of transactions carried out, mistakes derived from the above referred factors could be made repeatedly and accumulate before they are discovered and remedied.

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<sup>10</sup> Income generated by the insurance business is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>11</sup> Income generated by the insurance business to income generated by the banking business is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

The Group uses the Basic Indicator Approach to calculate the own funds requirements for operational risk. As at 31 December 2018 the capital requirements associated to the operational risk of the Group amount to EUR 184.95 million.

Any weakness in the internal processes or system or any other of the above factors could adversely affect the Group results or the reporting of such results, and also affect the ability of the Group to deliver appropriate customer services. Also, 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. The Group could also be subject to penalties and disciplinary sanctions as a consequence of the above (for example in the event of any delay or omission by it in the processing and registration of transactions or any breach in internal control).

All of the foregoing could cause financial damages and/or damage to the image of the Group, which in turn might 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 (please see "*The Group is subject to substantial regulation, and regulatory and governmental oversight*" below). Banking is a business where these rules are particularly relevant and there are several situations in the day-to-day business of the Group where they become applicable; for example, as part of its business, the Group executes transfers of funds that are exposed to be a tool for money laundering (which, in addition, could be more difficult to track with the eruption of new technologies such as cryptocurrencies or blockchain), or the Group may directly or indirectly, through third parties, deal with entities the employees of which are considered government officials. Monitoring compliance with these rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems.

The Issuer cannot guarantee that the Group-wide anti-money laundering, anti-corruption and anti-terrorism financing policies and procedures are adequate to 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 may have a material adverse effect on the Group's business, financial condition and results of operations.

**Macroeconomic risks**

***Unfavourable global economic conditions and, in particular, unfavourable economic conditions in Spain or in the Basque Country and Andalusia regions 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***

The Group conducts 100% of its business in Spain (after closure, at the beginning of 2017, of four branches that were located in France) and, as at 31 December 2018, the Group held Spanish debt (mainly sovereign) representing 5.8% of its total assets (5.4% as at 31 December 2017). In particular, it has a remarkable footprint in the region of the Basque Country and the provinces of Cordoba and Jaen. Consequently, the income generated by the products sold and by the services rendered by the Group depends on the economic conditions in Spain and especially in the Basque Country and Andalusia regions. In addition, since the main market for Spanish goods and services exports is the Eurozone, the Spanish economy is particularly sensitive to economic conditions in the Eurozone.

In 2018 the deficit in Spain stood at 2.6% of gross domestic product ("**GDP**") (source: *Bank of Spain*) and high public deficits have pushed public debt to 97.2% of GDP in 2018 (source: *Bank of Spain*), but despite the adverse dynamics, the level of public debt in Spain is not far from the Euro area average.

In 2018, the region of the Basque Country achieved a remarkable momentum with a GDP growth of 2.4% (source: *Eustat, Instituto Vasco de Estadística*), with an improved employment creation, registering at the end of 2018 an unemployment rate of 10.2% (source: *Eustat, Instituto Vasco de Estadística*).

At the same time, the economy of the Eurozone had a GDP at market prices growth of 1.8%, below the 2.4% achieved in the previous year (source: *Eurostat*).

The above notwithstanding, return to recessionary conditions in the Eurozone or in Spain, would likely have a significant adverse impact on the Group's financial condition, cash flows and results of operations. The European and the Spanish economies could be negatively affected by several risks, both external and internal.

External risks include the possibilities of a greater slowdown in the emerging economies and another episode of financial volatility and several political and geopolitical risks. Internal risks in the euro area include the 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, or the political situation in Italy where tensions in 2018 between the Italian government and the EU over Italy's fiscal policy and budget contributed to increased instability. Other existing risks to the European and the Spanish economies include a potential increase of the interest rates, the variation of the EUR-USD exchange rate or the implementation of protectionist measures in both foreign and European economic systems. In addition, while the probability of country defaults has decreased since 2012, the possibility of a European sovereign default still exists.

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. 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 central government where, after the April 2019 Spanish general election result, further instability cannot be ruled out during the legislature. An increase in political uncertainties in Spain could have adverse economic effects. 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.

Some of the consequences of a potential new economic downturn could be: (i) reduced demand for the Group's products and services; (ii) increased regulation of the Group's industry (please see: "*The Group is subject to substantial regulation, and regulatory and governmental oversight*" below); (iii) inability of the Group's borrowers to timely or fully comply with their existing obligations (please see "*Credit risk*" above); (iv) the accuracy of the Group's estimates of potential losses inherent to its credit exposure, which may, in turn, impact the reliability of the process and the sufficiency of the Group's loan loss allowances; (v) the value and liquidity of the portfolio of investment securities that the Group holds; or (vi) decrease in the value of the collateral posted by the Group (see "*Market risk*" above).

In the event that the above external and internal risks materialised and had an adverse impact on the economic prospects of Spain or the EU, the economic situation could reduce and have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Sovereign risk***

Any decline in Spain's credit ratings could adversely affect the value of certain securities held by the Group. The exposure of the Group to sovereign risk as at 31 December 2018 amounted to EUR 3,786 million, where Spanish government bonds represented the 89.3% of that exposure. It could also adversely impact the extent to which the Group can use Spanish government bonds it holds as collateral for European Central Bank ("ECB") refinancing and, indirectly, for refinancing with other securities, should it choose to do so.

In addition, since the Group is 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 also



adversely affect the Group's ability to access liquidity and its ability to raise capital and meet minimum regulatory capital requirements (please see "*Liquidity risk*" and "*Capital, liquidity and funding requirements—Capital requirements*" below). Furthermore, any downgrades of Spain's ratings may increase the risk of a downgrade of the Issuer's credit ratings by the rating agencies (for a description of the Issuer's credit ratings, please see "*Description of the Issuer - Credit Rating*").

Consequently, 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.

## **Legal, regulatory and compliance risks**

### ***The Group is subject to substantial regulation, and regulatory and governmental oversight***

The financial services industry is among the most highly regulated industries in the world; 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 and the EU. 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 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.

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, to the imposition of additional costs or to further regulatory exercises which could have an impact on the Group's current asset valuation policies, the classification of some of its exposures or cause other relevant effects.

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 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 (please see "*Capital, liquidity and funding requirements—Capital requirements*" below). The Group is also 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. It is particularly noteworthy how regulation has also increased in terms of customer and investor protection and digital and technological matters, including: (i) the Directive on credit agreements for consumers relating to residential immovable property; (ii) the Basic Payment Accounts Directive; (iii) the Second Payment Services Directive; (iv) the General Data Protection Regulation; (v) the Markets in Financial Instruments Directive; (vi) the Insurance Distribution Directive; (vii) the Benchmarks Regulation; and, in connection with insurance business, (viii) the Solvency II framework.

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

As an example of the above, 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, if and as the case may be, 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 its P2R (as defined in section "*Capital, liquidity and funding 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 and, as the case may be, on the Common Equity Tier 1 ("**CET1**") ratios.

In addition, the accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the stand-alone 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. In particular, the results of the Group could be adversely affected by the implementation of IFRS 17 in 2021 (or 2022, in case the one-year deferral of IFRS 17 proposed in the IASB meeting of November 2018 is finally approved in the due process of the amendment of the standard). The Issuer is currently analysing the effect of this standard and cannot anticipate as at the date of this Prospectus how it will impact the Group's business, financial condition and results of operations.

### **Regulatory requirements**

The Bank and the Group are subject to certain capital, liquidity and funding requirements (as described in section "*Capital, liquidity and funding requirements*"). There can be no assurance that the application of the existing regulatory requirements, standards or recommendations will not require the Bank or the Group to issue additional securities that qualify as regulatory capital or eligible securities (this requirement to issue additional securities may, in addition, impair the ability of the Bank or the Group to manage their funding and capital resources in the most efficient way), to liquidate assets, to curtail business or to take any other actions, any of which may have a material adverse effect on the Group's business, financial condition and results of operations.

The table below sets out the Group's capital position as of 30 June 2019, 31 December 2018, 2017 and 2016:

	30 June 2019*		31 December					
	Phased-in	Fully loaded	2018		2017		2016	
			Phased-in	Fully loaded	Phased-in	Fully loaded	Phased-in	Fully loaded
CET1 ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84
Tier 1 ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84
Total Capital ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84

\* Including 50% of the profits during the six month period ended 30 June 2019.

The Liquidity Coverage Ratio ("**LCR**") of the Group was 254.5% as at 30 June 2019 (225.1% as at 31 December 2018 —220.2% on average during the 12-months period ended on 31 December 2018— and 204.7% as at 31 December 2017).

In addition, as described in section "*Capital, liquidity and funding requirements*", failure by the Bank or the Group to comply with certain of the existing regulatory requirements could result in the imposition of administrative actions or sanctions, such as further P2Rs or 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, developing 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 may have a material adverse effect on the Group's business, financial condition and results of operations.

Moreover, it should not be disregarded that new and more demanding additional regulatory requirements, standards or recommendations may be applied in the future.

For example, the Basel Committee is currently in the process of reviewing and issuing recommendations in relation to risk asset weightings, which may lead to increased regulatory scrutiny of risk asset weightings in the jurisdictions who are members of the Basel Committee. On 7 December 2017, the Group of Governors and Heads of Supervision ("**GHOS**") of the Basel Committee on Banking Supervision ("**BCBS**") 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 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.

Another example are the continuous revisions on the NPLs coverage amounts expected by the regulator. On 15 March 2018, the ECB published the addendum (the "**Addendum**") to the ECB Guidance to banks on NPLs published on 20 March 2017 (the "**NPL Guidance**"). The Addendum specifies the ECB's supervisory expectations for prudent levels of provisions for new NPLs. The ECB will assess any differences between banks' practices and the prudential provisioning expectations laid out in the Addendum at least annually, which will be discussed during the supervisory dialogue. After this dialogue and taking into account the bank's specific situation, ECB Banking Supervision will decide, on a case-by-case basis, whether and which supervisory measures are appropriate. The result of this dialogue will be incorporated, for the first time, in the 2021 SREP. In addition, in a press release dated 11 July 2018, the ECB announced that, in order to address the stock of NPLs and with the aim of achieving the same coverage of NPL stock and flow over the medium term, it would set bank-specific supervisory expectations for the provisioning of NPLs. Such supervisory expectations for NPL provisioning, which are part of the ongoing supervisory dialogue, will add more pressure on financial results. As part of the EU Commission's package of measures aimed at addressing the risks related to high levels of NPLs in Europe, Regulation (EU) 2019/630 amends CRR as regards minimum loss coverage for non-performing exposures ("**NPEs**"), introducing a clear set of conditions for the classification of NPEs. This regulation establishes clear criteria on the determination of non-performing exposures, the concept of forbearance measures, deduction for non-performing exposures and treatment of expected loss amounts.

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

The members of the Group are, and in the future may be, involved in various claims, disputes, legal proceedings and governmental investigations. The outcome of these claims, disputes, legal proceedings and governmental investigations is inherently difficult to predict, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, and, therefore, the Issuer cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be or if the reserves accounted will be sufficient.

These claims and proceedings may expose the Group to monetary damages, direct or indirect costs or financial loss, civil and criminal penalties, loss of licenses or authorisations, or loss of reputation, as well as the potential regulatory restrictions on the Group's businesses. In addition, the Group may incur in significant expenses in connection with its claims, disputes, legal proceedings or governmental investigations, regardless their ultimate outcome, and may divert management's time and attention. All of the above may have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***IRPH potential litigation***

In relation to the reference rate for mortgages in Spain, the Court of Justice of the European Union ("**CJEU**") has been asked to clarify whether the judgment of the Spanish Supreme Court dated 14

December 2017, in which it exempted the Index of Reference of Mortgage Loans ("**IRPH**") (*Índice de Referencia de Préstamos Hipotecarios*) clause from any transparency control, is adjusted to EU law.

The legal matter under debate is, among others, whether the transparency test based on Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts ("**Directive 93/13/EEC**"), when the borrower is a consumer is applicable to the case at hand. Since the IRPH is the index used as a reference for calculating the price applicable to the amount borrowed under the loan agreement and it falls within the definition of the main subject matter of the contract, it must be drafted in plain, intelligible language, so that the consumer is in a position to evaluate, on the basis of clear, intelligible criteria, what the economic consequences derived from such contract are. The European Commission believes that transparency generates an obligation on the banking professional to explain to the consumer, before the signing of the contract, (i) the configuration of the reference interest rate (ii) its past evolution and (iii) its possible future evolution, compared with other indexes.

Pursuant to the foregoing and based on the existence of the judgment of the Supreme Court dated 14 December 2017, the fact that the IRPH is an official benchmark rate, published and managed by the Bank of Spain, the existence of case law (*jurisprudencia*) of the CJEU which confirms transparency of contracts referenced to other official benchmark rates, and the existence of an annual percentage rate (or "APR", "T.A.E." in Spain) indicator, which must be mandatorily informed to consumers, and which allows for the comprehension of the economic burden and the comparison of different mortgage offers (whatever the benchmark rate index applied is), the Bank considers that compliance with the transparency test under Directive 93/13/EEC should not be questioned.

However, on 10 September 2019, the opinion of the Advocate General in relation to the above was delivered (the "**Advocate General's Opinion**"). According to the Advocate General's Opinion, (i) Directive 93/13/EEC is applicable to the matter of reference and (ii) the national judge should be the competent authority to monitor the transparency of the disputed clause and verify, taking into account the set of circumstances that surrounded the conclusion of the contract at the time it was concluded, on the one hand, whether the contract sets out the method of calculating the interest rate transparently, so that the consumer was in a position to evaluate, based on precise, intelligible criteria, the economic consequences that it would have for him and, on the other, whether this contract meets all the information requirements envisaged in the national regulations.

On the other hand, the Advocate General's Opinion does not consider the IRPH or the clause which incorporates it in the relevant loan agreements to be, per se, abusive or null.

The Advocate General's Opinion is not binding on the CJEU and judgment by the CJEU will be given at a later date. The Bank cannot anticipate whether the CJEU's judgment will confirm the conclusions reached by the Advocate General.

As of 30 June 2019, the total outstanding principal amount of performing mortgage loans indexed to IRPH with individuals was approximately EUR 727 million. The impact of an unfavourable ruling by the CJEU is difficult to quantify in advance, as it depends on a variety of factors, including how will be the IRPH be substituted (i.e. how must the interest of the loan be calculated), if the effects of the judgement are to be applied retroactively and, if so, until what date, or the number of claims well-grounded that will be filed. Accordingly, an unfavourable ruling could have a material adverse effect on the Group's business, financial condition and results of operations.

#### **Risk Relating to the SNP Notes**

***The SNP Notes 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 SNP Notes under, and the value of, any SNP Notes***

As further explained in "*Capital, Liquidity and Funding Requirements - Loss absorbing powers by the Relevant Resolution Authority under Law 11/2015 and the SRM Regulation*", the SNP Notes may be subject to the bail-in tool (the "**Spanish Bail-in Power**" as defined therein) and to the write down and conversion powers (the "**Non-Viability Loss Absorption**" as defined therein) contemplated in the new article 59

BRRD as amended by Directive (EU) 2019/879 of the European Parliament and of the European Council of 20 May 2019 (as amended, replaced or supplemented from time to time, "**BRRD II**") and in general to the powers that may be exercised by the Relevant Resolution Authority (as defined below) under Law 11/2015 and Regulation (EU) No 806/2014 (the "**SRM Regulation**") as amended by the Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 (as amended, replaced or supplemented from time to time, the "**SRM Regulation II**").

To the extent that any resulting treatment of a Holder of the SNP Notes pursuant to the exercise of the Spanish Bail-in Power is less favourable than would have been the case under the hierarchy in normal insolvency proceedings, a Holder of such affected SNP Notes 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 SNP Notes. In the case of a Non-Viability Loss Absorption pursuant to BRRD II and the SRM Regulation II, it is unclear that a Holder would have a right to compensation if any resulting treatment of such Holder pursuant to the exercise of the Non-Viability Loss Absorption was less favourable than would have been the case in normal insolvency proceedings.

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 SNP Notes and additionally pursuant to BRRD II and the SRM Regulation II 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 SNP Notes adversely affected. For example, the Spanish Bail-in Power may be exercised in such a manner as to result in Holders receiving a different security, which may be worth significantly less than the SNP Notes.

Furthermore, the exercise of the Spanish Bail-in Power (including the exercise of the Non-Viability Loss Absorption pursuant to BRRD II and the SRM Regulation II) with respect to the SNP Notes 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 SNP Notes and/or the ability of the Bank to satisfy its obligations under any SNP Notes. There may be limited protections, if any, that will be available to holders of securities subject to the Spanish Bail-in-Power (including the SNP Notes) and to the broader resolution powers of the Relevant Resolution Authority. Accordingly, Holders of the SNP Notes 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 the Non-Viability Loss Absorption by the Relevant Resolution Authority with respect to the SNP Notes 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 SNP Notes may not be able to refer to publicly available criteria in order to anticipate any potential exercise of any such power. 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 SNP Notes. The price and trading behaviour of the SNP Notes may be affected by the threat of a possible exercise of any power under Law 11/2015 and the SRM Regulation (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 the European Banking Authority 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 any Non-Viability Loss Absorption. No assurance can be given that, once adopted, these standards will not be detrimental to the rights of a Holder under, and the value of a Holder's investment in, the SNP Notes.

In addition to the BRRD, it is possible that the application of other relevant laws, such as the Basel Committee on Banking Supervision 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 Financial Stability Board (the "FSB") on cross-border recognition of resolution actions, could be used in such a way as to result in the SNP Notes absorbing losses in the manner described above. Any actions by the Relevant Resolution Authority pursuant to the ones granted by Law 11/2015 and the SRM Regulation and pursuant to BRRD II and the SRM Regulation II, or other measures or proposals relating to the resolution of institutions, may adversely affect the rights of Holders of the SNP Notes, the price or value of an investment in the SNP Notes and/or the Bank's ability to satisfy its obligations under the SNP Notes.

***The SNP Notes constitute senior non preferred ordinary claims ("créditos ordinarios no preferentes") and are junior to certain obligations***

The payment obligations of the Bank under the SNP Notes on account of principal constitute non preferred ordinary claims ("*créditos ordinarios no preferentes*") under Additional Provision 14.2° of Law 11/2015.

Therefore, in accordance with the Insolvency Law and Additional Provision 14.2° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank the payment obligations of the Bank under the SNP Notes on account of principal (and unless they qualify as subordinated claims ("*créditos subordinados*") pursuant to Article 92.1° or 92.3° to 92.7° of the Insolvency Law (or equivalent legal provision which replaces it in the future)), as of the date of this Prospectus, rank (a) *pari passu* among themselves and with any Senior Non Preferred Liabilities (as defined in the Conditions), (b) junior to any Senior Preferred Liabilities (as defined in the Conditions) and (c) senior to any subordinated claims ("*créditos subordinados*") against the Bank under Article 92 of the Insolvency Law (or equivalent legal provision which replaces it in the future).

Therefore, the SNP Notes will be effectively subordinated to claims against the insolvency estate ("*créditos contra la masa*"), claims with privilege ("*créditos privilegiados*") and any other ordinary claims ("*créditos ordinarios*") against the Bank, other than non preferred ordinary claims ("*créditos ordinarios no preferentes*"), including without limitation, the Bank's Senior Preferred Liabilities. The Bank's Senior Preferred Liabilities would include, among other liabilities, its deposit obligations (other than the deposits obligations qualifying as preferred liabilities ("*créditos con privilegio general*") under Additional Provision 14.1° of Law 11/2015), its obligations in respect of derivatives and other financial contracts and its unsecured and unsubordinated debt securities other than Senior Non Preferred Liabilities. If the Bank were wound up, liquidated or dissolved, a liquidator would apply the assets which are available to satisfy all claims in respect of its senior and unsecured liabilities, first to satisfy claims of all other creditors ranking ahead of Holders, including holders of Senior Preferred Liabilities, and then to satisfy claims in respect of the SNP Notes (and other Senior Non Preferred Liabilities). If the Bank does not have sufficient assets to settle the claims of higher ranking creditors in full, the claims of the Holders under the SNP Notes will not be satisfied. Holders will share equally in any distribution of assets available to satisfy all claims in respect of its senior and unsecured liabilities with the creditors under any other Senior Non Preferred Liabilities if the Bank does not have sufficient funds to make full payment to all of them.

In addition, if the Bank enters into resolution, its eligible liabilities (including the SNP Notes) could be subject to the Spanish Bail-in Power, meaning potential write-down or conversion into equity securities or other instruments, and additionally pursuant to BRRD II and the SRM Regulation II may be subject to any Non-Viability Loss Absorption. The sequence of any resulting write-down or conversion of eligible

instruments under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for claims to be written-down or converted into equity in accordance with the hierarchy of claims provided in the Insolvency Law. Because the Conditions of the SNP Notes provide that they constitute non preferred ordinary claims ("*créditos ordinarios no preferentes*"), they would be written down or converted in full after any subordinated obligations of the Bank under article 92 of the Insolvency Law and before any of the Bank's Senior Preferred Liabilities are written down or converted. See "*—The SNP Notes 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 SNP Notes under, and the value of, any SNP Notes*".

As a consequence, Holders of the SNP Notes would bear significantly more risk than creditors of the Bank's Senior Preferred Liabilities and could lose all or a significant part of their investment if the Bank were to become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and Royal Decree 1012/2015) and the SRM Regulation and the SNP Notes become subject to the exercise of the Spanish Bail-in Power by the Relevant Resolution Authority or (ii) insolvent.

#### ***The SNP Notes provide for limited events of default***

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

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

Any enforcement by a Holder of its rights under the SNP Notes upon the occurrence of an event of default following the adoption of any early intervention or any resolution procedure will, therefore, be subject to the relevant provisions of the BRRD, Law 11/2015, Royal Decree 1012/2015 and the SRM Regulation in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see "*—The SNP Notes 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 SNP Notes under, and the value of, any SNP Notes*").

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

#### ***The SNP Notes may be redeemed prior to maturity upon the occurrence of a Tax Event or a Disqualification Event***

Subject to compliance with the Applicable Banking Regulations then in force and subject to the prior Supervisory Permission (as defined in the Conditions) when applicable, all, but not some only of the SNP Notes and in whole and not in part, may be redeemed at the option of the Bank at any time on or after the Issue Date, at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, if there is a Disqualification Event or a Tax Event. This

redemption will require that (i) a certificate signed by two of the Bank's duly Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied and (ii) in the case of a redemption pursuant to a Tax Event, the Bank uses its best efforts for an opinion from a nationally recognised law firm or other tax adviser in the Kingdom of Spain experienced in such matters to the effect that the relevant requirement or circumstance referred to in the definition of "Tax Event" prevails, are made available to Holders.

Under the SNP Notes, a Disqualification Event means, at any time on or after the Issue Date, that all or part of the outstanding nominal amount of the SNP Notes does not fully qualify as MREL-Eligible Senior Non Preferred Instruments (as defined in the Conditions) of the Group, except where such non-qualification (i) is due solely to the remaining maturity of the relevant SNP Notes being less than any period prescribed for MREL-Eligible Senior Non Preferred Instruments by the Applicable Banking Regulations or (ii) is as a result of the relevant SNP Notes being bought back by or on behalf of the Bank or a buy back of the relevant SNP Notes which is funded by or on behalf of the Bank. See also Condition 4.4.

For the purposes of the SNP Notes, a Tax Event is a change in, or amendment to, the laws or regulations of the Kingdom of Spain, or any change in the official application or interpretation of such laws or regulations that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in the Kingdom of Spain in respect of any payment of interest in respect of the SNP Notes 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 7, or (c) the applicable tax treatment of the SNP Notes being materially affected and, in each case, cannot be avoided by the Bank taking reasonable measures available to it. See also Condition 4.3.

The EU Banking Reforms (as defined in "*Capital, liquidity and funding requirements*" section) provide that the redemption of eligible liabilities instruments prior to the date of their contractual maturity is subject to the prior permission of the resolution authority. According to the EU Banking Reforms, such permission will be given only if any of the following conditions is met:

- (i) before or at the same time of such redemption, the institution replaces the eligible liabilities instruments with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the issuer; or
- (ii) the institution has demonstrated to the satisfaction of the resolution authority that the own funds and eligible liabilities of the institution would, following such redemption, exceed the requirements laid down in the CRR, the CRD IV and the BRRD by a margin that the resolution authority, in agreement with the competent authority, considers necessary; or
- (iii) the institution has demonstrated to the satisfaction of the resolution authority that the partial or full replacement of the eligible liabilities with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in CRR and in CRD IV for continuing authorisation.

It is not possible to predict whether or not the SNP Notes will or may qualify as MREL-Eligible Senior Non Preferred Instruments or if any further changes or circumstances, further change in the laws or regulations of the Kingdom of Spain, Applicable Banking Regulations or in the application or official interpretation 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 SNP Notes, and if so whether or not the Bank will elect to exercise such option to redeem the SNP Notes 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 SNP Notes.

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



be true prior to such period if the market believes that the SNP Notes may become eligible for redemption in the near term.

***The qualification of the SNP Notes as MREL-Eligible Senior Non Preferred Instruments is subject to uncertainty***

The SNP Notes are intended to be MREL-Eligible Senior Non Preferred Instruments under the Applicable Banking Regulations. However, there is uncertainty regarding the final substance of the Applicable Banking Regulations on the subject and how those regulations, once enacted, are to be interpreted and applied and the Bank cannot provide any assurance that the SNP Notes will or may be (or thereafter remain) MREL-Eligible Senior Non Preferred Instruments.

The EU Banking Reforms include directives and regulations intended to clarify the requirements for MREL eligibility. While the Conditions may be consistent with the EU Banking Reforms, these reforms have not yet been interpreted or implemented and their interpretation or implementation, as the case may be, may be different from those set forth in these reforms, or may be subsequently amended, supplemented or replaced.

Because of this uncertainty, the Bank cannot provide any assurance that SNP Notes will or may ultimately be (or thereafter remain) MREL-Eligible Senior Non Preferred Instruments.

If for any reasons the SNP Notes are not MREL-Eligible Senior Non Preferred Instruments or if they initially are MREL-Eligible Senior Non Preferred Instruments and subsequently become ineligible, then a Disqualification Event (as defined in the Conditions) will occur, with the consequences indicated in the Conditions. See "*—The SNP Notes may be redeemed at the option of the Bank*" and "*—Substitution and variation of the SNP Notes without Holder consent*".

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

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 SNP Notes against obligations owed by them to the Bank.

***Substitution and variation of the SNP Notes without Holder consent***

Subject to Condition 4.5, if a Tax Event or a Disqualification Event occurs, the Bank may, at any time, without the consent of the Holders, and subject to compliance with Applicable Banking Regulations and to the prior Supervisory Permission, as applicable, either (a) substitute new SNP Notes for all (but not some only) the SNP Notes whereby such new notes shall replace the SNP Notes or (b) vary the terms of all (but not some only) the SNP Notes, so that the SNP Notes may become or remain Qualifying Notes (as defined in the Conditions), provided that such substitution or variation shall not result in terms that are materially less favourable to the Holders and only involve those differences with the SNP Notes that are strictly necessary, as certified in a Bank's Certificate and an Independent Financial Adviser Certificate (as these terms are 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 Notes must contain terms that are materially no less favourable to Holders as the original terms of the SNP Notes, there can be no assurance that the terms of any Qualifying Notes will be viewed by the market as equally or more favourable, or that the Qualifying Notes will trade at prices that are equal to or higher than the prices at which the SNP Notes 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 SNP Notes.

***In certain circumstances Holders of the SNP Notes may be bound by modifications to the SNP Notes to which they did not consent***

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

***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 SNP Notes. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders of the SNP Notes on a liquidation or dissolution of the Bank in respect of the SNP Notes and may limit the ability of the Bank to meet its obligations in respect of the SNP Notes, and result in a Holder losing all or some of its investment in the SNP Notes. In addition, the SNP Notes 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 SNP Notes and having similar or preferential terms to the SNP Notes.

***Limitation on gross-up obligation under the SNP Notes***

The Bank's obligation under Condition 7 to pay additional amounts in the event of any withholding or deduction in respect of taxes on any payments of interest and any other amounts does not apply to any repayment of principal. Accordingly, if any such withholding or deduction were to apply, holders of the SNP Notes may receive less than the full amount of principal due under the SNP Notes upon redemption, and the market value of the SNP Notes may be adversely affected.

***The SNP Notes are Senior Non Preferred Liabilities which are relatively new types of instruments for which there is still little trading history***

On 25 June 2017, RDL 11/2017 entered into force amending Additional Provision 14 of Law 11/2015, which second paragraph provides for the legal recognition of senior non preferred ordinary obligations ("*créditos ordinarios no preferentes*") in Spain. Although certain Spanish financial institutions have issued senior non preferred securities or securities with similar features in the past, there is little trading history for securities of Spanish financial institutions with this ranking.

Market participants, including credit rating agencies, are in the initial stages of evaluating the risks associated with senior non preferred securities. The credit ratings assigned to senior non preferred securities such as the SNP Notes may change as the rating agencies refine their approaches, and the value of such securities may be particularly volatile as the market becomes more familiar with them. It is possible that, over time, the credit ratings and value of senior non preferred securities such as the SNP Notes will be lower than those expected by investors at the time of issuance of the SNP Notes. If so, Holders may incur losses in respect of their investments in the SNP Notes.

## INFORMATION INCORPORATED BY REFERENCE

The information set out below shall be deemed to be incorporated in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

- (i) Kutxabank Group's unaudited condensed consolidated interim financial statements and the directors' report, together with the limited review report of Deloitte, S.L. as of 30 June 2019 and for the six months then ended, available at Kutxabank's website (<http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Content-Disposition&blobheadername4=Content-Disposition&blobheadervalue1=Thu%2C10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22Estados+Semestrales+CNMV+2019.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312271906927&ssbinary=true>) (together, the **"2019 Consolidated First Semester Interim Financial Statements"**).
- (ii) Kutxabank Group's audited consolidated financial statements and the directors' report, together with the audit report of Deloitte, S.L. as of and for the year ended 31 December 2018, prepared in accordance with IFRS-EU, available at Kutxabank's website (<http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Content-Disposition&blobheadername4=Content-Disposition&blobheadervalue1=Thu%2C10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22CCAA+individuales+y+consolidadas+Grupo+Kutxabank+2018+%28CNMV%29.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312260582306&ssbinary=true>) (together, the **"2018 Consolidated Financial Statements"**).
- (iii) Kutxabank Group's audited consolidated financial statements and the directors' report, together with the audit report of Deloitte, S.L. as of and for the year ended 31 December 2017, prepared in accordance with IFRS-EU, available at Kutxabank's website (<http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Content-Disposition&blobheadername4=Content-Disposition&blobheadervalue1=Thu%2C10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22CCAA+individuales+y+consolidadas+Kutxabank+31.12.2017+-+CNMV.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312175103033&ssbinary=true>) (together, the **"2017 Consolidated Financial Statements"**).

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 Kutxabank or the Kutxabank 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 documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

## English translations

English translations of the 2019 Consolidated First Semester Interim Financial Statements, the 2018 Consolidated Financial Statements and the 2017 Consolidated Financial Statements, are available at Kutxabank's website:

<http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Type&blobheadername4=Content-disposition&blobheadervalue1=Thu%2C+10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22Cuentas+Semestrales+RL+KB+2019+%28Ingl%29+vd.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312272162744&ssbinary=true>;

<http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Type&blobheadername4=Content-disposition&blobheadervalue1=Thu%2C+10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22CCAA+Grupo+Kutxabank+2018+%28Ingl%29+vd.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312263527702&ssbinary=true> and <http://www.kutxabank.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Expires&blobheadername2=content-type&blobheadername3=MDT-Type&blobheadername4=Content-disposition&blobheadervalue1=Thu%2C+10+Dec+2020+16%3A00%3A00+GMT&blobheadervalue2=application%2Fpdf&blobheadervalue3=abinary%3Bcharset%3DUTF-8&blobheadervalue4=inline%3B+filename%3D%22CCAA+GRUPO+KB+2017+ENGLISH+VD.pdf%22&blobkey=id&blobtable=MungoBlobs&blobwhere=1312185290705&ssbinary=true>, respectively).

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

## TERMS AND CONDITIONS OF THE SNP NOTES

*The following is the text of the Terms and Conditions of the SNP Notes:*

The SNP Notes (as defined below) have been issued by Kutxabank, S.A. (the "**Bank**") by virtue of the resolutions passed by (i) the general shareholders' meeting of the Bank on 30 June 2016; (ii) the Board of Directors of the Bank dated 5 September 2019, and (iii) the Executive Committee of the Bank dated 5 September 2019.

### 1. **Form, Denomination and Title**

- 1.1 The SNP Notes have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate nominal amount of €500,000,000 and in the denomination of €100,000 (as reduced from time to time by any write down or cancellation, as the case may be, the "principal amount" of a SNP Note).
- 1.2 The SNP Notes have been registered with Iberclear as managing entity of the central registry of the Spanish settlement system (the "**Spanish Central Registry**"). Holders of a beneficial interest in the SNP Notes who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the SNP Notes 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 of the SNP Notes, notwithstanding the Bank's commitment to assist, when appropriate, on the clearing and settlement of the SNP Notes 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 SNP Notes: ES0343307015. The Common Code for this issue is 205455817.

- 1.3 Title to the SNP Notes is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as having an interest in the SNP Notes shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the SNP Notes recorded therein. In these Conditions, the "**Holder**" means the person in whose name such SNP Notes are 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 SNP Notes 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 SNP Notes have been issued without any restrictions on their transferability. Consequently, the SNP Notes may be transferred and title to the SNP Notes may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable. Each Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant SNP Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest, or any writing on, or the theft or loss of, the Certificate issued in respect of it), and no person will be liable for so treating the Holder.

## 2. Status of SNP Notes

The payment obligations of the Bank under the SNP Notes on account of principal constitute direct, unconditional, unsubordinated and unsecured non preferred ordinary claims ("*créditos ordinarios no preferentes*") of the Bank and, in accordance with Additional Provision 14.2° of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank (and unless they qualify as subordinated claims ("*créditos subordinados*") pursuant to Article 92.1° or 92.3° to 92.7° of the Insolvency Law or equivalent legal provision which replaces it in the future), will rank:

- (a) *pari passu* among themselves and with any Senior Non Preferred Liabilities;
- (b) junior to any Senior Preferred Liabilities; and
- (c) senior to any subordinated claims ("*créditos subordinados*") of the Bank in accordance with Article 92 of the Insolvency Law (or equivalent legal provision which replaces it in the future).

According to Additional Provision 14.2° of Law 11/2015 upon the insolvency of the Bank, the SNP Notes will rank below any Senior Preferred Liabilities of the Bank, and accordingly, claims in respect of the SNP Notes shall be paid after payment of any such other Senior Preferred Liabilities of the Bank.

*Claims of Holders in respect of interest accrued but unpaid as of the commencement of any insolvency procedure in respect of the Bank shall constitute subordinated claims ("*créditos subordinados*") against the Bank ranking in accordance with the provisions of Article 92.3° of the Insolvency Law and accrual of interest shall be suspended from the date of the declaration of insolvency of the Bank.*

## 3. Interest Payments

### 3.1 Interest Rate

The SNP Notes bear interest on their outstanding principal amount at the rate of 0.5 per cent. per annum (the "**Interest Rate**") from (and including) the Issue Date in accordance with the provisions of this Condition 3.

Interest shall be payable on the SNP Notes annually in arrear on 25 September in each year (each, an "**Interest Payment Date**") as provided in this Condition 3, with the first Interest Payment Date falling on 25 September 2020.

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

### 3.2 Interest Accrual

The SNP Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 4.1, 4.3 or 4.4 or the date of cancellation thereof pursuant to Condition 4.7, as the case may be, unless payment of all amounts due in respect of such SNP Note (if any) is not properly and duly made, in which event interest shall continue to accrue on the SNP Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any SNP Note for any period shall be equal to the product of the outstanding principal amount of the SNP Note, the Interest Rate and the day-

count fraction as described in Condition 3.1 for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable on each Interest Payment Date shall be €500 in respect of each SNP Note of €100,000 denomination.

#### **4. Redemption, Substitution, Variation and Purchase**

##### **4.1 Final Redemption**

Unless previously redeemed or purchased and cancelled pursuant to Conditions 4.6 and 4.7 or substituted and cancelled pursuant to Conditions 4.5 and 4.7, the SNP Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on 25 September 2024 (the "**Maturity Date**"). The SNP Notes may not be redeemed at the option of the Bank other than in accordance with this Condition 4.

##### **4.2 Conditions to Redemption, Substitution, Variation and Purchase prior to Final Redemption**

The Bank may, subject to compliance with the Applicable Banking Regulations then in force and subject to the prior Supervisory Permission, when applicable, redeem or purchase the SNP Notes or substitute or vary the terms of the SNP Notes in each case in accordance with Conditions 4.3, 4.4, 4.5 or 4.6.

Prior to the publication of any notice of substitution, variation or redemption pursuant to Conditions 4.3, 4.4 and 4.5, the Bank (i) shall make available to the Holders at its registered office a certificate signed by two of its duly Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and (ii) in the case of a redemption pursuant to Condition 4.3 only, use its best efforts to make available to the Holders at its registered office an opinion from a nationally recognised law firm or other tax adviser in the Kingdom of Spain experienced in such matters to the effect that the relevant requirement or circumstance referred to in the definition of "Tax Event" prevails.

##### **4.3 Redemption Due to Tax Event**

If a Tax Event has occurred and is continuing, then the Bank may, subject to Condition 4.2 and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 10 (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the SNP Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank (i) would be obliged to pay additional amounts, or (ii) would no longer be entitled to claim a deduction or the amount of such deduction would be materially reduced, in each case, were a payment in respect of the SNP Notes then due or (iii) would be obliged to apply the applicable tax treatment. Upon the expiry of such notice, the Bank shall redeem the SNP Notes.

##### **4.4 Redemption Due to Disqualification Event**

If a Disqualification Event has occurred and is continuing, then the Bank may, subject to Condition 4.2 and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 10 (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the SNP Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Bank shall redeem the SNP Notes.

#### 4.5 Substitution or Variation

If a Tax Event or a Disqualification Event has occurred and is continuing, then the Bank may, subject to Condition 4.2 and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 10 but without any requirement for the consent or approval of the Holders, at any time either substitute all (but not some only) of the SNP Notes for, or vary the terms of all (but not some only) of the SNP Notes so that they remain or, as appropriate, become, Qualifying Notes. Upon the expiry of such notice, the Bank shall either vary the terms of or substitute the SNP Notes in accordance with this Condition 4.5, as the case may be.

Any notice provided in accordance with this Condition 4.5 shall be irrevocable, specify the relevant details of the manner in which such substitution or, as the case may be, variation shall take effect (including the date for substitution or variation) and where the Holders can inspect or obtain copies of the new conditions of the SNP Notes. Such substitution or, as the case may be, variation will be effected without any cost or charge to the Holders.

Holders shall, by virtue of subscribing and/or purchasing and holding any SNP Notes, be deemed to accept the substitution or variation of the terms of such SNP Notes and to grant full power and authority to the Bank to take any action and/or to execute and deliver any document in the name and/or on behalf of the Holders which is necessary or convenient to complete the substitution or variation of the terms of the SNP Notes.

In connection with any substitution or variation in accordance with this Condition 4.5, the Bank shall comply with the rules of any stock exchange on which the SNP Notes are for the time being listed or admitted to trading.

#### 4.6 Purchases

The Bank, any of its Subsidiaries or any third party designated by it, may, subject to Condition 4.2, purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for their account, SNP Notes in any manner and at any price. The SNP Notes so purchased (or acquired), while held by or on behalf of the Bank, any of its subsidiaries or any third party designated by it, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders.

#### 4.7 Cancellation

All SNP Notes substituted by the Bank pursuant to Condition 4.5 will forthwith be cancelled. All SNP Notes purchased by or on behalf of the Bank may, subject to obtaining any Supervisory Permission therefore if required under prevailing Applicable Banking Regulations, be held, resold or, at the option of the Bank, cancelled forthwith. Any SNP Notes so cancelled may not be resold and the obligations of the Bank in respect of any such SNP Notes shall be discharged.

### 5. **Payments**

#### 5.1 Method of Payment

Payments of principal and interest in respect of the SNP Notes will be made in euro by transfer to the registered euro account of the relevant Holder maintained by or on behalf of it with a bank that processes payments in a city in which banks have access to the TARGET System, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at close of business on the day immediately preceding the date on which the payment of principal or interest, as the case may be, falls due. Holders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant SNP Notes. The Bank will have no responsibility or liability for the records relating to payments made in respect of the SNP Notes.



## 5.2 Payments Subject to Laws

Save as provided in Condition 7, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Bank agrees to be subject and the Bank will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

## 5.3 Delay in Payment

Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a SNP Note if the due date is not a Business Day.

## 5.4 Non-Business Days

If any date for payment in respect of any SNP Note is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

## 6. Default

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

Save as provided above, there are no events of default under the SNP Notes which could lead to an acceleration of the SNP Notes. Holders shall, by virtue of subscribing and/or purchasing and holding any SNP Notes, be deemed to accept that except as contemplated above, they will not be entitled to declare any SNP Notes due and payable, it being therefore understood that the non performance by the Bank of its obligations under the SNP Notes will not constitute an event of default and, therefore, Holders will not have the right to accelerate their SNP Notes and in the event that any payment on the SNP Notes is not made when due, each Holder will have a claim only for amounts then due and payable on their SNP Notes.

If a default occurs under this Condition 6, claims of Holders in respect of the SNP Notes shall rank as set out under Condition 2.

## 7. Taxation

All payments of interest and any other amounts payable (excluding, for the avoidance of doubt, any repayment of principal) in respect of the SNP Notes 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 interest and any other

amounts (excluding, for the avoidance of doubt, any repayment of principal), the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such payments of interest and any other amounts had no such withholding or deduction been required.

The Bank shall not be required to pay any additional amounts in relation to any payment in respect of SNP Notes:

- (a) presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the SNP Notes by reason of his having some connection with the Kingdom of Spain other than:
  - (i) the mere holding of SNP Notes; or
  - (ii) the receipt of any payment in respect of SNP Notes;
- (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 SNP Note, of a custodian, collection agent, person or entity acting on its behalf or similar person in relation to such SNP Note; or
- (c) to, or to a third party on behalf of, a Holder who is an individual resident for tax purposes in the Kingdom of 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 SNP Notes 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 SNP Notes to be made free and clear of withholding tax or deduction on account of any taxes imposed by the Kingdom of 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 SNP Notes will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof ("**FATCA**") or any law implementing an intergovernmental approach to FATCA.

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

## **8. Prescription**

Claims against the Bank for payment in respect of the SNP Notes shall be prescribed and become void unless made within five years after the date on which the payment in question becomes due and payable.

## **9. Meetings of Holders, Modification and Substitution**

### **9.1 Convening meetings**

The Bank may, at any time, and shall, if required in writing by Holders holding not less than 10 per cent. in principal amount of the SNP Notes 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.

## 9.2 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 10. 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 9.2(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.

## 9.3 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.

## 9.4 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 principal amount of the SNP Notes for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business, and no business (other than the choosing of a Chairman in accordance with Condition 9.3) 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 principal amount of the SNP Notes 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 principal amount of the SNP Notes for the time being outstanding; or
- (ii) a reduction of the amount payable or modification of the Interest Payment Dates; or
- (iii) a modification of the currency in which payments under the SNP Notes are to be made; or
- (iv) a modification of the majority required to pass an Extraordinary Resolution; or
- (v) the sanctioning of any scheme or proposal described in Condition 9.8(b)(vi) below; or
- (vi) alteration of this proviso or the proviso to Condition 9.5(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 principal amount of the SNP Notes for the time being outstanding.

9.5 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 9.1, be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is not a Business Day 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 principal amount of the SNP Notes for the time being outstanding so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below)

have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 9.4(c) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in principal amount of the SNP Notes for the time being outstanding.

9.6 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 SNP Notes must be notified to Holders in accordance with Condition 10 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 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 9.6(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 SNP Note.

9.7 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 principal amount of the SNP Notes 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 9.7(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.

## 9.8 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 10 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 9 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll.

A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 9.4(b) and 9.4(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 SNP Notes or otherwise;
  - (iii) power to agree to any modification of the provisions contained in these Conditions or the SNP Notes which is proposed by the Bank;
  - (iv) power to give any authority or approval which under the provisions of this Condition 9 or the SNP Notes 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 SNP Notes;
- (c) Subject to Condition 9.8(a), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 9, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

## 9.9 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 9 will be effected in accordance with the Applicable Banking Regulations and conditional upon any prior approval from the Competent Authority and/or the Relevant Resolution Authority, to the extent required thereunder.

## 10. 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 SNP Notes are for the time being listed and/or admitted to trading.

So long as the SNP Notes 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](http://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 SNP Notes are represented by book-entries in Iberclear, all notices to Holders shall be made through Iberclear for on transmission to their respective accountholders.

## 11. Further Issues

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

## 12. Governing Law and Jurisdiction

### 12.1 Governing Law

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

### 12.2 Jurisdiction

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 SNP Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the SNP Notes) and that accordingly any suit, action or proceedings arising out of or in connection with the SNP Notes (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 12 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.

**13. 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 SNP Note) and each Holder shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Bank in respect of, or arising under or in connection with the SNP Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the 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 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 SNP Note but for this Condition.

**14. Definitions**

In these Conditions:

"**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 including, in particular, those giving effect to the MREL or any equivalent or successor principles then applicable to the Bank and/or the Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency including, in particular, those giving effect to the MREL or any equivalent or successor principles then applicable to the Bank and/or the Group, in each case to the extent 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 Bank and/or the Group) (in all cases, as amended or replaced from time to time);

"**Authorised Signatory**" means any authorised officer of the Bank;

"**Bank**" means Kutxabank, S.A.;

"**Bank's Certificate**" means a certificate signed by two Authorised Signatories of the Bank stating that, in the opinion of the Bank, (i) the changes determined pursuant to a substitution or variation of the SNP Notes under Condition 4.5 will result in the Qualifying Notes having terms not materially less favourable to the Holders than the terms of the SNP Notes on issue and (ii) the differences between the terms and conditions of the Qualifying Notes and these Conditions are only those strictly necessary to (a) in the case of a Disqualification Event, comply with the then current requirements for MREL-Eligible Senior Non Preferred Instruments in accordance with Applicable Banking Regulations or (b) in the case of a Tax Event, cure the relevant Tax Event;



"**BRRD**" means Directive 2014/59/EU of 15 May, establishing the framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time, 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;

"**BRRD II**" means Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Bilbao, Madrid and in London or, if on that day a payment is to be made, a day which is a TARGET Business Day also;

"**Certificate**" has the meaning given to it in Condition 1.3;

"**Chairman**" has the meaning given to such term in Condition 9.3;

"**Clearstream Luxembourg**" has the meaning given to such term in Condition 1.2;

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

"**Code**" has the meaning given to such term in Condition 7;

"**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 Bank and/or the Group, as applicable;

"**Conditions**" means these conditions of the SNP Notes, as amended from time to time;

"**CRD IV**" means any or any combination of the CRD IV Directive, the CRR, and any CRD IV Implementing Measures (in all cases, as amended or replaced from time to time);

"**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 or the Group, as applicable, 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;

"**CRD V Directive**" means Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;

"**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;

"**CRR II**" means Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012;

"**Disqualification Event**" means, at any time on or after the Issue Date, that all or part of the outstanding nominal amount of the SNP Notes does not fully qualify as MREL-Eligible Senior Non Preferred Instruments of the Group, except where such non-qualification (i) is due solely to the remaining maturity of the relevant SNP Notes being less than any period prescribed for MREL-Eligible Senior Non Preferred Instruments by the Applicable Banking Regulations or (ii) is as a result of the relevant SNP Notes being bought back by or on behalf of the Bank or a buy back of the relevant SNP Notes which is funded by or on behalf of the Bank.

A Disqualification Event shall, without limitation, be deemed to include where any non-qualification of the SNP Notes as MREL-Eligible Senior Non Preferred Instruments arises as a result of (a) any legislation which gives effect to the EU Banking Reforms in the Kingdom of Spain differing in any respect from the form of the EU Banking Reforms (including if the EU Banking Reforms are not implemented in full in the Kingdom of Spain), or (b) the official interpretation or application of the EU Banking Reforms or the EU Banking Reforms as implemented in the Kingdom of Spain (including any interpretation or pronouncement by any relevant court, tribunal or authority) differing in any respect from the manner in which the EU Banking Reforms have been reflected in these Conditions;

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

"**Eligible Liabilities**" means any liability which complies with the requirements set out in Applicable Banking Regulations to qualify as eligible liabilities for MREL purposes.

"**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 SNP Notes held by or for the benefit, or on behalf, of the Bank or any of its Subsidiaries;

"**EU Banking Reforms**" means the CRD V Directive, BRRD II, CRR II and the SRM Regulation II;

"**Euroclear**" has the meaning given to such term in Condition 1.2;

"**Extraordinary Resolution**" has the meaning given to such term in Condition 9;

"**FATCA**" has the meaning given to such term in Condition 7;

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

"**Holder**" has the meaning given to it in Condition 1.3;

"**Iberclear**" means the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*, the Spanish Central Securities Depository, which manages the Spanish Central Registry and the Spanish settlement system;

"**Iberclear Member**" means each participating entity (*entidad participante*) in Iberclear;

**"Independent Financial Adviser"** means an independent financial firm or financial adviser with appropriate expertise or financial institution of recognised standing 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 SNP Notes under Condition 4.5 will result in the Qualifying Notes having terms not materially less favourable to the Holders than the terms of the SNP Notes on issue and (ii) the differences between the terms and conditions of the Qualifying Notes and these Conditions are only those strictly necessary to (a) in the case of a Disqualification Event, comply with the then current requirements for MREL-Eligible Senior Non Preferred Instruments in accordance with Applicable Banking Regulations or (b) in the case of a Tax Event, cure the relevant Tax Event;

**"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;

**"Interest Payment Date"** has the meaning given to it in Condition 3.1;

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

**"Interest Rate"** has the meaning given to it in Condition 3.1;

**"Issue Date"** means 25 September 2019, being the date of the initial issue of the SNP Notes;

**"Law 10/2014"** means Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), as amended from time to time;

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

**"Loss Absorbing Power"** means any power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Kingdom of Spain, relating to (i) the transposition of the BRRD (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) as amended or superseded from time to time, (ii) the SRM Regulation and (iii) the instruments, rules and standards created thereunder, pursuant to which, among others, any obligation of a Regulated Entity (or an affiliate of such Regulated Entity) can be reduced, cancelled, suspended, modified, or converted into shares, other securities, or other obligations of such Regulated Entity (or affiliate of such Regulated Entity);

**"Maturity Date"** has the meaning given to it in Condition 4.1;

**"MREL"** means the "minimum requirement for own funds and eligible liabilities" for credit institutions under the BRRD, set in accordance with Article 45 of the BRRD (as transposed in the Kingdom of Spain), Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016, supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, or any successor requirement under EU legislation and relevant implementing legislation and regulation in the Kingdom of Spain;

**"MREL-Eligible Senior Non Preferred Instrument"** means an instrument included in the Eligible Liabilities which are available to meet the MREL Requirements for the purposes of the

Applicable Banking Regulations where such instrument ranks *pari passu* with the Senior Non Preferred Liabilities of the Bank;

"**MREL Requirements**" means the minimum requirement for own funds and eligible liabilities applicable to the Group under the Applicable Banking Regulations;

"**Proceedings**" has the meaning given to this term in Condition 12.2;

"**Qualifying Notes**" means, at any time, any securities denominated in euros and issued directly or indirectly by the Bank where such securities:

- (a) have terms not materially less favourable to the Holders than the terms of the SNP Notes with any differences between their terms and conditions and these Conditions being those strictly necessary to (in the case of a Disqualification Event) comply with the then current requirements for MREL-Eligible Senior Non Preferred Instruments in accordance with 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 Bank's Certificate and an Independent Financial Adviser Certificate (copies thereof will be available at the Bank's registered 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 SNP Notes, (2) have the same denomination and aggregate outstanding principal amount as the SNP Notes prior to the relevant variation or substitution, the same (or higher) Interest Rate, the same maturity date and the same Interest Payment Dates as those from time to time applying to the SNP Notes, (3) have the same redemption rights as the SNP Notes; (4) comply with the then current requirements of Applicable Banking Regulations in relation to MREL-Eligible Senior Non Preferred Instruments; (5) preserve any existing rights under the SNP Notes to any accrued interest or other amounts which have not been paid, (6) are assigned (or maintain) at least the same solicited credit ratings as were assigned to the SNP Notes immediately prior to such variation or substitution, and (7) shall not at such time be subject to a Disqualification 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 SNP Notes were listed immediately prior to such variation or substitution.

For the avoidance of doubt, any variation in the ranking of the SNP Notes as set out in Condition 2 resulting from any substitution or variation of the terms of the SNP Notes shall be deemed not to be materially less favourable to the interests of the Holders where the ranking of the SNP Notes following such substitution or variation is at least the same ranking as is applicable to the SNP Notes under Condition 2 on the Issue Date;

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

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

"**Regulated Entity**" means any entity to which BRRD, as implemented in the Kingdom of Spain (including but not limited to, Law 11/2015, Royal Decree 1012/2015 and any other implementing regulations) and as amended or superseded from time to time, or any other Spanish piece of legislation relating to the Loss Absorbing Power, applies, which includes, certain credit institutions, investment firms, and certain of their parent or holding companies;

"**Relevant Date**" means in respect of any payment, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made;

**"Relevant Resolution Authority"** means the *Fondo de Resolución Ordenada Bancaria* (FROB), the Single Resolution Board (SRB) established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Loss Absorbing Power from time to time;

**"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;

**"Senior Non Preferred Liabilities"** means any obligations of the Bank with respect to any unsubordinated and unsecured non preferred ordinary claims ("*créditos ordinarios no preferentes*") against the Bank under Additional Provision 14.2<sup>o</sup> of Law 11/2015, as amended by Royal Decree-Law 11/2017, of 23 June, on urgent measures in financial matters, and as further amended from time to time and any other obligations which, by law and/or by their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Senior Non Preferred Liabilities;

**"Senior Preferred Liabilities"** means any obligations of the Bank with respect to any unsecured and unsubordinated claims ("*créditos ordinarios*") against the Bank, other than the Senior Non Preferred Liabilities;

**"SNP Notes"** means the €500,000,000 Fixed Rate Senior Non Preferred Notes due 25 September 2024 issued by the Bank on the Issue Date;

**"SRM Regulation"** means Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended or superseded from time to time);

**"SRM Regulation II"** means Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms;

**"Spanish Central Registry"** has the meaning given in Condition 1.2;

**"Subsidiary"** means any entity over which another entity has, directly or indirectly, control in accordance with Article 42 of the Spanish Commercial Code (*Código de Comercio*), Rule 43 of Circular 4/2017, of 27 November, of the Bank of Spain and Applicable Banking Regulations;

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

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

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

**"Tax Event"** means, at any time on or after the Issue Date, a change in, or amendment to, the laws or regulations of the Kingdom of Spain (including, for the avoidance of doubt, any political subdivision thereof or any authority or agency therein or thereof having power to tax), or any change in the official application or interpretation of such laws or regulations that results in:

- (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in the Kingdom of Spain in respect of any payments of interest in respect of the SNP Notes 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 7; or
- (c) the applicable tax treatment of the SNP Notes being materially affected,

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

**"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 SNP Note.

## **USE AND ESTIMATED NET AMOUNT OF PROCEEDS**

The estimated net amount of proceeds of the issue of the SNP Notes is 497,105,000 and the Issuer intends to use it for general corporate purposes.

## DESCRIPTION OF THE ISSUER

### History and developments

Kutxabank is legally incorporated as a Spanish public limited company (*sociedad anónima*) with the status of a bank. The Issuer is subject to special banking legislation and related regulations in respect of the management, supervision and solvency of credit institutions, in particular, Law 10/2014 and Royal Decree 84/2015, of 13 February, which implements 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*) ("**Royal Decree 84/2015**"), and is subject to the supervision, control and regulation of the Bank of Spain (*Banco de España*) and the ECB under the supervision system created by the Single Supervisory Mechanism. Kutxabank is also subject to the Restated Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) and the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*), Royal Decree 217/2008, of 15 February, on the legal regime for investment services companies and other entities providing investment services (*Real Decreto 217/2008, de 15 de febrero, sobre el régimen jurídico de las empresas de servicios de inversión y de las demás entidades que prestan servicios de inversión y por el que se modifica parcialmente el Reglamento de la Ley 35/2003, de 4 de noviembre, de Instituciones de Inversión Colectiva, aprobado por el Real Decreto 1309/2005, de 4 de noviembre*) and further implementing legislation.

The Issuer's registered office is located at Gran Vía Diego López de Haro, 30-32, 48009 Bilbao, Spain, the telephone number of its registered office is "+34 94 401 7000" and its corporate website is "www.kutxabank.com" (the information on the corporate website of the Issuer does not form part of the Prospectus unless that information is incorporated by reference into the Prospectus, and has not been scrutinised or approved by the CNMV).

The Issuer's legal and commercial names are Kutxabank, S.A. and Kutxabank, respectively.

The Issuer was incorporated on 14 June 2011 for an indefinite period under the corporate name Banco Bilbao Bizkaia Kutxa, S.A.U., by means of a public deed granted before the Notary Public of Bilbao, Mr. Vicente del Arenal, under number 863 of his protocol, and is registered at the Commercial Registry of Vizcaya, in volume 5226, book 0, page no. BI-58729, sheet 1, entry number 1. The Issuer then changed its name to Kutxabank, S.A. on 22 December 2011. Kutxabank commenced its operations on 1 January 2012. In addition, the Issuer is registered in the Register of Banks and Bankers of the Bank of Spain, under number 2095. The Bank's tax identification number is A95653077 and its LEI code is 549300U4LIZV0REEQQ46.

Kutxabank's corporate object comprises all manner of activities, transactions and services which are inherent to the banking business in general and which it is permitted to perform under current legislation, including the provision of investment and ancillary services, and the acquisition, ownership, use, and disposal of all manner of marketable securities.

Kutxabank is the parent of the Kutxabank Group, which arose from the integration of the three Basque savings banks – Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea ("**BBK**"), Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián ("**Kutxa**") and Caja de Ahorros de Vitoria y Álava (hereinafter "**Caja Vital**").

The primary business of the Group is supplying commercial and retail banking facilities and providing financial products and services to individuals, small and medium enterprises ("**SMEs**") and other corporate entities.



The main events in the history of Kutxabank and the Kutxabank Group are the following:

#### ***Acquisition of Caja de Ahorros and Monte de Piedad de Córdoba by BBK***

Prior to the process of integration of the three Basque savings banks that gave rise to the Kutxabank Group, BBK acquired and integrated into its consolidated group Caja de Ahorros and Monte de Piedad de Córdoba ("**CajaSur**"), an Andalusian savings bank that had been intervened by the Bank of Spain.

The main reason for the intervention of CajaSur was the high level of impairment of a significant portion of both its credit portfolio and its industrial portfolio, especially that related to the real estate development sector. Additionally, the entity had low levels of efficiency and significant gaps in its risk control infrastructure.

The acquisition took place on 16 July 2010, through a competitive bidding process launched by the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the "**FROB**"), which included the assignment of all the assets and liabilities of the CajaSur group to BBK Bank, S.A., a company wholly owned by BBK and which was expressly set up for this transaction. Subsequently, said company changed its name to CajaSur Banco, S.A. ("**CajaSur Banco**").

The main conditions related to the procedure for awarding CajaSur to BBK were the following:

- A share capital increase of EUR 800.00 million in BBK Bank, S.A., to be fully subscribed by BBK, until reaching a total share capital of EUR 818.00 million.
- The transfer of all the assets and liabilities of the CajaSur group to BBK Bank, S.A., for a total price of EUR 1.00.
- An asset protection scheme (the "**APS**") to be granted by the FROB, linked to a specific portfolio of assets. Under the APS, the FROB would assume losses derived from those assets within five years up to a maximum of EUR 392.00 million. The APS was materialised in a loan, which was intended to be amortised against the losses subject to protection. As of today, such loan is fully amortised.

The transaction was closed on 1 January 2011. At that date, the excess of the purchase price over the net fair value of assets and liabilities transferred amounted to EUR 301.46 million, with such amount being accounted for as goodwill. This goodwill mainly reflects the value of CajaSur's franchise among Andalusian customers.

#### ***Integration of BBK, Kutxa, Caja Vital and Kutxabank***

On 30 June 2011, the Boards of Directors of BBK, Kutxa, Caja Vital and the Bank approved the integration agreement for the creation of a contractual consolidable group of credit institutions (Institutional Protection Scheme or "**IPS**"), the head of which would be the Bank, and which would also comprise BBK, Kutxa and Caja Vital (referred to collectively as the "**Savings Banks**"). This integration agreement governed the aspects comprising the new Group, the Group's and the Bank's governance, and the Group's stability mechanisms.

Also, the Boards of Directors of the Savings Banks and the Bank (the latter as the beneficiary) approved, pursuant to Title III and the Third Additional Provision of Law 3/2009, of 3 April, on structural modifications to companies (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*), the corresponding spin-off plans under which all the assets and liabilities associated with the financial activity of BBK, Kutxa and Caja Vital would be contributed to the Bank, and the Savings Banks would perform their objects as credit institutions indirectly through the Bank.

The purpose of the spin-off was the global transfer, by universal succession, of all the assets and liabilities of the respective Savings Banks (including BBK's ownership interest in CajaSur Banco), except for the excluded assets and liabilities not directly related to the Savings Banks' financial activities (including BBK's ownership interest in the Bank), which were identified in the respective spin-off plans.

The spin-off plans, together with the integration agreement and the subsequent novation thereof, were approved by the corresponding general assemblies of BBK and Caja Vital on 16 September 2011 and by the general assembly of Kutxa and by the Bank's then sole shareholder on 26 September 2011.

Once the relevant administrative authorisations had been obtained, on 22 December 2011, BBK, Kutxa and Caja Vital, together with the Bank, executed the relevant public deeds for the spin-off of the Savings Banks' financial businesses and the contribution thereof to Kutxabank.

On 1 January 2012, the spin-off was registered with the Commercial Registry of Vizcaya and, consequently, as from that moment the spin-off of the Savings Banks' businesses and the contribution thereof to the Bank and the IPS became effective. The Bank, as the beneficiary of the spin-off, was subrogated in all the rights, actions, obligations, liability and charges relating to the spun-off assets and liabilities. Also, the Bank assumed the human and material resources related to the operation of the spun-off businesses of the respective Savings Banks. On that same date, the Bank commenced its operations.

In exchange for the spun-off assets and liabilities, the Bank increased share capital by a total of EUR 1,981,950,000, represented by 1,981,950 registered shares, each with a par value of EUR 1,000, plus a share premium, so that each Savings Bank received newly issued shares in the Bank for a value equal to the value of the assets and liabilities transferred from each Savings Bank. After the capital increase, the ownership interest of each Savings Bank in the Bank was as follows: BBK 57%, Kutxa 32% and Caja Vital 11%.

Pursuant to Law 26/2013, of 27 December, on savings banks and banking foundations (*Ley 26/2013, de 27 de diciembre, de cajas de ahorros y fundaciones bancarias*), the ordinary general assemblies of BBK and Caja Vital at their sessions held on 30 June 2014 and the extraordinary general assembly of Kutxa held on 24 October 2014 approved the transformation of the Savings Banks into banking foundations. BBK, Kutxa and Caja Vital were subsequently registered at the Basque Country Foundations Registry on 24 November 2014, 22 December 2014 and 29 July 2014, respectively.

The registration of the three former Savings Banks at the Foundations Registry resulted in the loss of their status as credit institutions and, as a result, the IPS formed by the Savings Banks and Kutxabank was terminated. In this regard, the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa ("**BBK Banking Foundation**") and the Board of Trustees of Fundación Bancaria Vital-Vital Banku Fundazioa ("**Vital Banking Foundation**"), unanimously resolved, on 23 January 2015 and 10 February 2015, respectively, to terminate the IPS and the integration agreement entered into by the former Savings Banks and Kutxabank. In addition, on 17 March 2015 the Board of Trustees of Fundación Bancaria Kutxa-Kutxa Banku Fundazioa ("**Kutxa Banking Foundation**") also unanimously resolved to terminate the integration agreement entered into by the former Savings Banks and Kutxabank.

### **2019-2021 Strategic Plan**

The Group has approved a new strategic plan for 2019 through to 2021 with the following strategic key goals: growth and profitability, transformation of the distribution model, digital competitiveness, corporate and social responsibility and solvency management.

For the 2019-2021 plan period, Kutxabank aims at achieving a 33.8% increase in new mortgages, a 33.1% increase in new consumer loans, a SME's performing lending of 15.1%, a 16.5% growth in assets under management, a reduction of 33.9% in the NPL stock, 60,000 new customers classified for individualised service and digital customers representing more than 60% of its total customers.

With regards the Group's performing loan book, Kutxabank aims at achieving a 1.4% compound annual growth rate during the period, with a NPL ratio target of 2.5% and coverage levels of around 68%. Kutxabank also aims at achieving a 0.6% compound annual growth rate in deposits during the period and a 5.7% compound annual growth rate in assets under management during the period.

In terms of solvency, Kutxabank will aim at maintaining the RWAs stable and at achieving a growth in the CET1 ratio (that is targeted to be driven by retained earnings).

### **Business overview of Kutxabank**

Since the integration of the Savings Banks in 2012, the Kutxabank Group has consolidated its position among the leading medium-sized banks in the Spanish financial industry.

This positive outcome is the result of its successful local banking model based on the retail sector (retail and SME loans represented 81.14%% of the total loans of the Group<sup>12</sup> as at 30 June 2019, when the percentage of credits to clients over total assets was 70.49%), its particular roots in, and commitment to, its home territories (where it has remarkable market shares as at 31 March 2019: a 37.8% deposits market share, a 28.1% loans market share and a 26.7% branches share in the Basque Country (source: *statistical journal of the Bank of Spain as at 31 March 2019*), a 39.2% deposits market share and a 25.6% loans market share in Cordoba (source: *statistical journal of the Bank of Spain as at 31 March 2019*) and a 7.5% branches market share in Andalusia (source: *statistical journal of the Bank of Spain as at 31 March 2019*)), and the strong social content of its activity (the Group is involved in socially cohesive and economically efficient projects). The Group has selected presence in the rest of the Spanish market, especially in Madrid (with a 2.6% branches share as at 31 March 2019 (source: *statistical journal of the Bank of Spain as at 31 March 2019*)) and Catalonia (with a 1.0% branches share as at 31 March 2019 (source: *statistical journal of the Bank of Spain as at 31 March 2019*)). As at 31 December 2018, 79% of the Group's gross income was obtained from retail local markets which is a clear example of its business model. Another remarkable feature of the Group business is its highly-conservative risk standards. The above notwithstanding, the Group has also a diversified income structure with 46.87% of its income consisting of commissions and income generated by the insurance business<sup>13</sup> (compared to 30% in 2012).

This model is underpinned by a low risk profile and a strong capital adequacy and liquidity position according to the European Banking Authority transparency exercise in 2018, where, in the 2017-2020 adverse scenario, the Kutxabank Group obtained a phased-in CET1 ratio landing point of 13.5%, a decrease of 14.0% (compared to the initial scenario (being the lowest result among the 33 results that were released for European entities) and, in the domestic market, the lowest NPL inflation and the lowest cumulative cost of risk in the three-year horizon. Moreover, the Kutxabank Group has been imposed with the lowest level of P2R within the Spanish banking sector in the latest Supervisory Review and Evaluation Process (SREP).

The Group has a coherent organisational structure (with 5,476 employees as of 30 June 2019) and well-defined reporting lines.

The Group's activities are organised into four large business lines according to area of operation, customer type and nature of the services provided. Each of the business lines has its own management unit around which its activities are organised and which establishes the targets to be met. Additionally, each business line has its own organisational structure and internal governance model. The business lines are:

- (i) Retail Business;
- (ii) Wholesale Business;
- (iii) Industrial holdings; and
- (iv) Non-Core Real Estate.

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<sup>12</sup> Retail and SME loans to total loans is an APM, the definition, explanation, use and reconciliation of which is set out in "Alternative Performance Measures".

<sup>13</sup> Commissions and income generated by the insurance business to total income is an APM, the definition, explanation, use and reconciliation of which is set out in "Alternative Performance Measures".

A high-level description of the operations, sub-units, core products and legal entities involved in each of the business lines is provided below:

#### *Retail Business*

This is the Group's most important business line, both in terms of turnover (it represented 86.12% of the gross income for the one-year period ended 31 December 2018 and 85.71% for the one-year period ended 31 December 2017) and deployed staff. The core business of the Group is secure-lending to individuals (as of 30 June 2019, 80% of the Group's loans to the private sector were loans to households, out of which 92% are secured with first lien mortgages).

Through this business line, the Group offers its financial products and services to individual customers. The most important products and services are mortgage loans for home purchase and savings plans via demand and term deposits, in addition to the services typically offered to this segment (debit and credit cards, transfers of funds, etc.).

The Bank organises its retail business based on its priority geographical areas of operation:

- Basque Country networks: Vizcaya, Gipuzcoa and Alava (local networks),
- Andalusia: Cordoba and Jaen are considered as local networks,
- Expansion: rest of Spain.

From an organisational perspective, the Group's structure comprises a network of branches and a commercial team devoted to this business line, organised according to the geographical areas in which the Group operates. In addition, the Retail Business line has centralised intermediate and business support structures which allow for specialised yet uniform management per area, as well as the performance of monitoring and follow-up.

This business line has its own governance committee (Retail Business Committee), which meets on a monthly basis and makes key decisions affecting this business line and analyses the performance of each of its units.

Kutxabank and CajaSur Banco are the main companies that comprise the Retail Business. However, the Group considers certain activities as part of this business line, despite being legally managed by various subsidiaries.

The Retail Business also includes both the bancassurance and asset management activities. The rationale behind this model is that those activities leverage the Group's commercial network, as Kutxabank's and CajaSur Banco's points of sale are needed to market the bancassurance and asset management activities.

The bancassurance activity is developed by the Group through Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, S.A.U. and Kutxabank Vida y Pensiones, Compañía de Seguros y Reaseguros, S.A.U.

The asset management activity includes the assets under the management of Kutxabank Gestión S.A.U., S.G.I.I.C., the Fineco Group and Norbolsa, S.V, S.A.

#### *Wholesale Business*

The Wholesale Business is the Group's second most important business line in terms of business turnover (it represented 12.48% of the gross income for the one-year period ended 31 December 2018 and 13.82% for the one-year period ended 31 December 2017).

Through this business line, the Group offers its financial products and services to different types of companies. The most relevant are the working capital financing products (credit accounts, commercial

discount and foreign trade financing), fixed asset financing (mainly through secured loans), and to a lesser extent, developer loans (for the Residential Property Development Banking segment).

This business line is divided into several segments, depending on the type of company targeted:

- **Corporate Banking:** it targets large corporations (with an annual turnover over EUR 100 million in the Basque Country region and over EUR 300 million in the rest of Spain).
- **Business Banking:** it targets businesses with an annual turnover of between EUR 0.6 million (EUR 2 million in the Andalusian market) and EUR 100 million.
- **Institutional Banking:** it is specialised on the needs of public sector entities.
- **Residential Property Development Banking:** its main aim is to provide financing for development within the residential property market, seeking to create new mortgages for the Retail Business.

The Wholesale Business line also has a network of offices, specific management centres and a specialised commercial and technical team. Decision making and monitoring the progress of this business line is done at executive meetings by the persons in charge at each segment.

Kutxabank and CajaSur Banco are the main entities comprising this business line.

#### *Industrial holdings*

This business line comprises a number of companies in which the Group holds a stake and that complement and diversify the Group's core banking business. It contains the investments of the Group's industrial holdings portfolio. The Group has significant holdings in several major industrial companies in their respective sectors. Main stakes are Iberdrola, S.A. (1.692%), Euskaltel, S.A. (19.882%), Petróleos del Norte, S.A. (14.02%) and Construcciones y Auxiliar de Ferrocarriles, S.A (14.056%).

This business line also has its own management unit and organisational and governance structure, led by the Group's investments' division.

This business line contributed EUR 74.78 million for the one-year period ended 31 December 2018 (EUR 67.24 million for the one-year period ended 31 December 2017).

#### *Non-Core Real Estate*

This part of the business mainly consists of the management of the Group's non-strategic assets related to the real estate sector (loans, shareholdings, land and other types of immovable assets).

This is a business line which is progressively being liquidated, with a very high percentage exposure to the risk associated with problematic situations (it represented 1.40% of the gross income for the one-year period ended 31 December 2018 and 0.47% for the one-year period ended 31 December 2017).

This business line also has its own executive management committee (Real Estate Committee), which meets monthly.

#### **Kutxabank Group's Products and Services**

The Kutxabank Group offers a wide range of financial products and services to individuals, SMEs and other corporate entities, including, among others, loans, traditional deposits, investment funds, pensions and insurance.

### *Mortgage loans*

The Kutxabank Group offers mortgage loans for home purchase and for the purchase of other types of property. Mortgage loans are tailored to customers' circumstances and requirements, including fixed rate, floating rate and mixed rate mortgage loans, and ample flexibility with respect to maturity periods.

As at 30 June 2019, the outstanding balance of mortgage loans amounts to EUR 32,192.85 million, out of which EUR 28,415.45 million are residential mortgage loans (EUR 31,995.96 million as at 31 December 2018, out of which EUR 27,883.66 million were residential mortgage loans, and EUR 32,609.08 million as at 31 December 2017, out of which EUR 27,884.62 million were residential mortgage loans). The evolution of this product during both the six month period ended 30 June 2019 and also during year ended 31 December 2018 was notable, with a new production of mortgage loans of EUR 1,659.29 million and EUR 2,593.21 million, respectively (that, respectively represented year-on-year evolutions of 24.8% and 22.6%), which offset the relevant repayments.

As at 30 June 2019, the Kutxabank Group had a market share of new mortgages arranged in the Basque Country of 39.0%, with a remarkable year-on-year growth of 293 basis points (source: *Instituto Nacional de Estadística (INE) and own elaboration*). The market share in Andalusia experienced a relevant year-on-year growth of 174 basis points as at 30 June 2019 (reaching 9.8%) and, also as of that date, the Group had a market share in Spain of 6.0% (compared with its branches' market share in Spain of 3.4%) (source: *Instituto Nacional de Estadística (INE) and own elaboration*).

### *Consumer loans*

The Kutxabank Group offers personal loans for financing the acquisition of consumer durable products (cars, home improvements) and consumer products (cash loans and other personal loans). It also offers point-of-sale credits, which allow companies' clients to obtain financing directly from the Kutxabank Group up to EUR 20,000.

As at 30 June 2019, the outstanding balance of consumer loans amounts to EUR 1,119.36 million (EUR 1,090.82 million as at 31 December 2018 and EUR 979.44 million as at 31 December 2017). The evolution of this product during both the six month period ended 30 June 2019 and also during year ended 31 December 2018 was remarkable, with new productions of consumer loans of EUR 267.84 million and EUR 474.50 million, respectively (that, respectively, represented year-on-year evolutions of 13.3% and 19.8%). The SMEs loan book increased by 3.9% in 2018.

### *Productive asset finance (fixed assets)*

The Kutxabank Group offers loans secured by a mortgage or guaranteed by personal guarantees for financing the acquisition of real estate ordinary business activity, the acquisition of business equipment and other purposes. It also offers European Investment Bank ("**EIB**") financing, which allows their beneficiaries to obtain financing under preferential conditions by virtue of the agreement between Kutxabank and the EIB.

### *Working capital financing*

The Kutxabank Group offers working capital financing such as credit advances and discounting facilities (i.e., financing operations that allow a customer with a credit right against a third party incorporated in a bill of exchange or a promissory note or documented otherwise and which have not matured, to receive the amount equivalent to the receivable for a fee and up to an agreed maximum amount) and credit accounts (i.e., a financing product which allows a customer to access financial resources, up to a specified amount or limit, to ease the liquidity issues of its company's production cycles, with a pre-agreed interest rate and maturity term).

As at 31 December 2018, the outstanding balance of discounting facilities amounts to EUR 2,069.59 million (EUR 1,839.55 million as at 31 December 2017).

### *International business solutions and other solutions for companies*

The Kutxabank Group offers companies a broad range of solutions for collections, payments and guarantees, export financing, import financing, risk hedging and comprehensive cash management. In addition, the Group offers factoring with and without recourse, leasing, confirming and renting.

### *Current and savings accounts and deposits*

The Kutxabank Groups offers a broad range of current account and on demand deposits (including demand accounts, savings accounts, home purchase savings accounts and regular savings plans). It also offers fixed-term deposits at different maturities.

As at 30 June 2019, the Group had customer deposits with a total balance of EUR 43,979.77 million (EUR 42,103.80 million as at 31 December 2018 and EUR 40,126.57 million as at 31 December 2017). Also, as at that date, the deposits of the Group represented 72.31% of its total assets<sup>14</sup>. As at 31 December 2018 deposits of the Group represented 72.12% of its total assets (85% of which are retail and SMEs deposits); as at 31 December 2018, 81% of the deposits of the Group were stable deposits.

### *Long-term investments and savings*

The Kutxabank Groups offers a wide range of investment fund options that can meet any investor profile (money market, fixed-income, equity-linked, balanced, actively-managed funds, etc.) as well as EPSVs (specific individual and group pension plans of the region of the Basque Country) and individual and collective pension plans. It also provides delegated fund portfolios (advisory services materialised in investment funds suited to the customer's risk profile) and securities (investments in securities listed on stock exchanges and bond markets on customers' behalf)

As at 30 June 2019, off-balance sheet customer funds managed by the Group reached approximately EUR 25 billion (62% of which were investment funds and 37% of which were pension plans —which include approximately EUR 8 billion of EPSVs), EUR 3.5 billion of which are managed by the Fineco Group (whose assets under management experienced a remarkable 10.6% year-on-year growth as at that date).

As at 30 June 2019, the Group had a 5.7% market share in Spain in investment funds management (source: *INVERCO*) and a 46.4% market share in the Basque Country in pensions plans management (source: *Basque Federation of Voluntary Social Welfare Entities*). Also as at that date, the Group was the fifth entity in the Spanish domestic sector by customer funds managed (source: *INVERCO*), and reached the first position in the Spanish domestic sector by investment funds taking (source: *INVERCO*) and the seventh position by bank assets (source: *public information of the significant credit entities supervised by the ECB*).

### *Insurance*

The Kutxabank Group offers a wide range of products, including life and non-life insurance (among which, home, vehicle, health and death), it also offers insurance products which are specific for the wholesale business such as "Cyber Insurance" (i.e., a product offered to cover the financial, physical, and activity shutdown risk deriving from a data breach or system security failure affecting personal data, confidential information or the company's systems, among others), business insurance (i.e., an insurance covering the risks which affect business premises), comprehensive business insurance (i.e., an insurance covering a company and its employees against the risks arising from business activity) and credit insurance (i.e., an insurance covering a company from the lack of payment by its clients).

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<sup>14</sup> Deposits to total assets is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

As at 31 December 2018, the Group recorded insurance premiums amounting to EUR 247.28 million (EUR 103.09 million of which were life insurance premiums and EUR 144.20 million of which were non-life insurance premiums). As at 31 December 2017, the Group recorded insurance premiums amounting to EUR 230.16 million (EUR 100.57 million of which were life insurance premiums and EUR 129.60 million of which were non-life insurance premiums).

#### *Payment methods and management*

The Kutxabank Group offers a range of additional transactional services including credit and debit cards and other card types (ViaT, gift cards, etc.), transfers, invoice management, tax payments, payroll, pensions and benefit payments and Point of Sale (POS) Terminals.

#### *Online services*

The Kutxabank Group offers a wide range of online services to its customers through its online and mobile platforms. Through Kutxabank's internet banking platform, customers can, among other things, access balance information, pay bills, transfer funds, check their correspondence and contact the bank online. There is also a customer service telephone line to assist customers. The Group also offers "e-billing", an electronic billing platform, available via online banking, which makes it possible to create, sign and store invoices in digital format with the same content and validity before the tax authorities, replacing traditional paper invoices.

The Group has developed the application "KutxabankPay app", which allows payment between individuals using the "Bizum" payment system as well as mobile phone-based payment using HCE technology (virtual cards) for Android terminals. It also provides access to various card control and management functionalities included in the Group's mobile banking offering. Through this application, as well as the online banking facility, users can directly manage their cards' credit limits and the daily security limits in the various areas (ATMs, purchases, online purchases, etc.) or choose to "switch on" and "switch off" their cards at their will. Customers may also defer their card payments on their mobiles using "Flexibuy". Through push notifications they receive on their phones, customers can decide whether to finance their debit and credit card purchases.

The digital channel of the Group has experienced growth from 2014, with an increase of 16% in the number of digital customers (at the end of 2018, 38.1% of the Group's customers were digital customers) and an increase of 300% in the number of customers active in mobile banking (reaching 25.2% of the customers of the Group at the end of 2018). The online/mobile transactions have increased 19% from 2014 (reaching 45% of the Group's total transactions for the year ended 31 December 2018), where the transactions conducted through other channels have decreased (e.g., the transactions conducted through the branch channel have decreased 15%). It is also remarkable that, for the year ended 31 December 2018, consumer loans granted through digital channels (representing 17.6% of the Group's consumer loans) were 18 times the figure in 2014 and that digital customers contributed 57% of the gross income for that year.

#### *Business advice*

The Group also provides advice on corporate finance (by advising on mergers and acquisitions and providing a comprehensive coordination and overall support service which generates value for corporate customers), capital markets (by designing custom-made plans to meet the financing needs of customers' business projects) and project finance (by advising on and evaluating all kinds of local and international investment projects, with global financing solutions). The Group also holds stakes in venture capital entities, with a commitment to boost and reinforce the business structures of industrial and service companies.

#### **Branches and Distribution Channels**

Kutxabank offers products adapted to the needs and profile of each customer, through a multi-channel approach adapted to the different forms of relationship with customers.



As of 30 June 2019, Kutxabank had a total of 896 branches in its network. The geographical distribution across various autonomous regions of Spain as at 30 June 2019 is as follows:

<b>Region</b>	<b>Kutxabank</b>	<b>CajaSur Banco</b>
Basque Country	350	
Vizcaya	179	
Guipúzcoa	109	
Álava	62	
Andalusia		320
Córdoba		135
Jaen		156
Rest Andalusia		129
Madrid	84	
Valencia	36	
Catalonia	34	
Castilla León	14	
Cantabria	12	
Aragón	7	
Navarre	10	
Galicia	9	
La Rioja	7	
Castilla La Mancha	6	
Murcia	4	
Asturias	3	
<b>Total</b>	<b>576</b>	<b>320</b>

33% of the total transactions of the Group for the one-year period ended 31 December 2018 were carried out through this channel.

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

*Internet banking.* The Group offers a wide range of online services to its customers through its online and mobile platforms as described under "*Kutxabank Group's Products and Services*" above.

*Telephone banking.* The Group also offers its customers the choice to carry out banking transactions over the phone.

*ATMs.* The Group's 1,848 ATMs (as at 30 June 2019) allow its customers to conveniently access a variety of operations. 15% of the total transactions of the Group for the one-year period ended 31 December 2018 were carried out through this channel.

## Management of Kutxabank

### 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, their positions within the Issuer and their membership type:

<b>Name</b>	<b>Title</b>	<b>Category</b>
Mr Gregorio Villalabeitia Galarraga	Chairman	Executive
Mr Xabier Gotzon Iturbe Otaegi	First Vice-Chairman	Executive
Mr Juan María Ollora Ochoa de Aspuru	Second Vice-Chairman	Proprietary <sup>(1)</sup>
Mr Francisco Javier García Lurueña	Chief Executive Officer	Executive
Mr Joseba Mikel Arieta-araunabeña Bustinza	Director	Proprietary <sup>(2)</sup>
Mr Alexander Bidetxea Lartategi	Director	Proprietary <sup>(2)</sup>
Mr Jesús María Herrasti Erlogorri	Director	Proprietary <sup>(3)</sup>
Ms María Victoria Mendia Lasa	Director	Independent <sup>(*)</sup>
Mr Josu de Ortuondo Larrea	Director	Proprietary <sup>(2)</sup>
Mr José Antonio Ruiz-Garma Martínez	Director	Independent
Mr José Miguel Martín Herrera	Director	Proprietary <sup>(3)</sup>
Mr. José Julio Zatón Salazar	Director	Independent
Ms María Manuela Escribano Riego	Director	Independent
Ms Roxana Meda Inoriza	Director	Independent
Mr Antonio Villar Vitores	Director	Independent
Mr Jorge Hugo Sánchez Moreno	Director	Proprietary <sup>(1)</sup>
Ms Irantzu Irastorza Martínez	Secretary (non-Member)	
Mr Xabier Notario Bordonaba	Vice Secretary (non-Member)	

(1) Shareholder represented: Vital Banking Foundation.

(2) Shareholder represented: BBK Banking Foundation.

(3) Shareholder represented: Kutxa Banking Foundation.

(\*) Lead independent Director (*Consejera Coordinadora*) with the power to request the chairman to call a board meeting and include new items on the meeting's agenda (and to request the president of each of the Committees to call a Committee meeting and to include new items on the meeting's agenda, and to attend to such meetings), to coordinate non-executive directors, to coordinate the evaluation of the Board of Directors and to lead the regular evaluation of the chairman of the Board of Directors and of the Chief Executive Officer.

The business address of each member of the Board of Directors is Gran Vía 30-32, 48009 Bilbao, Spain.

The table below sets forth the names of those members of the Board of Directors of the Issuer with activities performed outside the Group that are significant with respect to the Issuer as of the date of this Prospectus:

<b>Director</b>	<b>Company</b>	<b>Title</b>
Mr Gregorio Villalabeitia Galarraga	Confederación Española de Cajas de Ahorro	Fourth Vice-Chairman
Mr Francisco Javier García Lurueña	Cecabank, S.A.	Director

### Executive Committee

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

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

<b>Name</b>	<b>Position</b>
Mr Gregorio Villalabeitia Galarraga	Chairman
Mr José Antonio Ruiz-Garma Martínez	Member
Mr Francisco Javier García Lurueña	Member
Mr Joseba Mikel Arieta-araunabeña Bustinza	Member
Mr José Miguel Martín Herrera	Member
Mr Xabier Gotzon Iturbe Otaegi	Member
Mr Juan María Ollora Ochoa de Aspuru	Member
Mr Jorge Hugo Sánchez Moreno	Member

#### *Audit and Compliance Committee*

The Audit and Compliance Committee has, in general terms and among others, the following functions: (i) reporting to the General Meeting of Shareholders on the issues of its competence; (ii) monitoring the effectiveness of the Issuer's internal control, internal auditing and risk management systems, as well as discussing with the auditors any significant weaknesses in the internal control system detected during the audit process; (iii) monitoring the process of preparing and presenting the regulated financial information; (iv) submitting to the Board of Directors the proposals for the appointment of auditors; (v) establishing the appropriate relationships with the auditors to obtain information on any threat to their independence and to the audit review; and (vi) reporting to the Board of Directors in advance on all matters set forth in the law, the bylaws and in the Regulations of the Board of Directors.

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

<b>Name</b>	<b>Position</b>
Ms María Victoria Mendia Lasa	Chairwoman
Mr. José Julio Zatón Salazar	Member
Mr Jesús María Herrasti Erlogorri	Member
Ms María Manuela Escibano Riego	Member
Ms Roxana Meda Inoriza	Member

#### *Appointments Committee*

The Appointments Committee has, in general terms and among others, the following functions: (i) formulating and reviewing the criteria that must be followed for the composition of the Board of directors; (ii) formulating proposals for appointing and re-electing the directors; (iii) notifying the appointments and dismissals of the senior management; (iv) submitting the Suitability Assessment Policy to the Board of Directors; (v) submitting the evaluation systems linked to the Suitability Assessment Policy to the Board of Directors; (vi) assessing the suitability of the candidates or members of the Board of Directors and other collectives subject to the Suitability Assessment Policy; (vii) submitting the training plans for the collectives subject to the Suitability Assessment Policy to the Board of Directors; (viii) setting a representation target for the less represented gender in the Board of Directors; (ix) assessing the balance of knowledge, capacity, diversity and experience of the Board of Directors, and drafting a description of the functions and skills required for specific appointments; and (x) regularly assessing the structure, size, composition and performance of the Board of Directors.

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

<b>Name</b>	<b>Position</b>
Ms María Manuela Escribano Riego	Chairwoman
Mr Alexander Bidetxea Lartategi	Member
Mr José Antonio Ruiz-Garma Martínez	Member
Mr Josu de Ortuondo Larrea	Member

#### *Remuneration Committee*

The Remuneration Committee has, in general terms and among other, the following functions: (i) submitting the remuneration system for the Board of Directors; (ii) submitting the extent and amount of the remunerations, rights and compensations of the executive directors; (iii) submitting to the Board of Directors the remuneration policy of the senior management; (iv) ensuring the compliance of the remuneration policy of the Issuer; and (v) ensuring the transparency of remunerations.

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

<b>Name</b>	<b>Position</b>
Ms Roxana Meda Inoriza	Chairwoman
Mr Josu de Ortuondo Larrea	Member
Mr Antonio Villar Vitores	Member
Mr Alexander Bidetxea Lartategi	Member

#### *Risk Control Committee*

The Risk Control Committee has, in general terms and among others, the following functions: (i) systematically revising exposures to the main types of risk; (ii) analysing and assessing proposals regarding strategy and policies of risk control management; (iii) advising the Board of Directors on the propensity to global risk, current and future, and its strategy in this field; (iv) assist the Board of Directors on monitoring the application of the risks strategy by the senior management; (v) advising the Board of Directors about how the nature, format and frequency of information on risks should be received by the Committee and the Board of Directors; (vi) reviewing and analysing the Issuer's risk map; (vii) checking whether the prices of assets and liabilities offered to customers have fully taken into consideration the Issuer's business model; and (viii) checking, without prejudice to the functions of the Remunerations Committee, whether the incentives foreseen in the remuneration system, take into consideration risk, capital, liquidity, and probability and opportunity of profits.

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

<b>Name</b>	<b>Position</b>
Mr Antonio Villar Vitores	Chairman
Mr. José Julio Zatón Salazar	Member
Mr Joseba Mikel Arieta-araunabeña Bustinza	Member
Mr José Miguel Martín Herrera	Member
Mr Juan María Ollora Ochoa de Aspuru	Member
Ms María Victoria Mendia Lasa	Member
Mr Jorge Hugo Sánchez Moreno	Member

### ***Management Team***

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

<b>Name</b>	<b>Position</b>
Mr Gregorio Villalabeitia Galarraga	Executive President
Mr Francisco Javier García Lurueña	Chief Executive Officer
Mr Fernando Martínez-Jorcano Eguiluz	Corporate General Manager
Mr José Alberto Barrena Llorente	Corporate General Manager
Ms Alicia Vivanco González	Investees General Manager
Mr Eduardo Ruiz de Gordejuela Palacio	Retail Business General Manager
Mr Fernando María Irigoyen Zuazola	Wholesale Business General Manager

There are no members of the management team of the Issuer with activities performed outside the Group that are significant with respect to the Issuer as of the date of this Prospectus.

The business address of each member of the Issuer's management team mentioned above is Gran Vía 30-32, 48009 Bilbao, Spain.

### ***Conflicts of interest***

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 or to members of its management team between any duties owed to the Issuer and their private interests and other duties.

Besides the measures provided for under applicable regulations, the Issuer has adopted the following measures to avoid conflicts of interest:

- (i) The Internal Code of Conduct on the Securities Market of the Issuer includes the general policy for the prevention and management of conflicts of interest which could arise between the clients of the Issuer, and between the clients and the Issuer itself.
- (ii) The Regulations of the Board of Directors develops the measures provided for under applicable regulations in connection with conflicts of interest and the Regulation on Conflicts of Interest, Transactions with Directors, Significant Shareholders and Senior Managers, and Intra-Group Relations implements the relevant provisions of the Regulations of the Board of Directors and, therefore, complements what is set out in the Internal Code of Conduct on the Securities Market.

## Organisational Structure

The following table summarises the subsidiaries of the Kutxabank Group and the Issuer's ownership of such companies as at 31 December 2018:

Name	Line of business	Percentage of ownership at 31/12/18		
		Direct	Indirect	Total
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00
Caja Vital Finance, B.V.	Issuance of financial instruments.	100.00	-	100.00
Cajasur Banco, S.A.	Banking.	100.00	-	100.00
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	84.49	84.49
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	84.49	84.49
Fineco Sociedad de Valores, S.A.	Broker-dealer.	84.49	-	84.49
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	84.49	84.49
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00
Harri Hegoalde 2, S.A.U.	Holding of property assets.	-	100.00	100.00
Harri Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00
Harri Iparra, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100.00
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	-	100.00	100.00
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00
Kartera I, S.L.	Holding of shares.	100.00	-	100.00
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	100.00	-	100.00
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	100.00	-	100.00
Kutxabank Pensiones, S.A. E.G.F.P.	Pension fund management.	-	100.00	100.00
Logística Binaria, S.L.	Lease of logistics buildings.	-	100.00	100.00
Norapex, S.A.	Leisure centre management.	-	100.00	100.00
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72
Sekilur, S.A.	Property development.	-	100.00	100.00
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00
Yerecial, S.L.	Property development.	-	100.00	100.00

The following table summarises the associates accounted for using the equity method of the Kutxabank Group and the Issuer's ownership of such companies as at 31 December 2018:

Name	Line of business	Percentage of ownership at 31/12/18		
		Direct	Indirect	Total
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	-	23.20	23.20

Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	36.71	-	36.71
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00
Baserri, S.A.	Dormant.	33.38	-	33.38
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	27.67	-	27.67
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44
Euskaltel, S.A.	Telecommunications.	20.13	-	20.13
Gabialsur 2006, S.L.	Property development.	-	50.00	50.00
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	10.00	10.00	20.00
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00
Hazibide, S.A.	Business development.	34.88	-	34.88
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00
Inversiones Zubiatzu, S.A.	Holding company.	20.27	-	20.27
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06
Mecano Del Mediterráneo, S.L.	Real estate.	-	50.00	50.00
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	32.76	32.76
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50
Promotora Inmobiliaria Sarasur, S.A.	Residential development.	-	50.00	50.00
San Mames Barria, S.L.	Real estate.	24.99	-	24.99
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	43.12	-	43.12
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90
Viacajas, S.A.	Means of payment.	46.64	-	46.64
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	36.84	36.84

## Capital Structure

Kutxabank's issued share capital as of the date of this Prospectus is EUR 2,060,000,000.00 represented by 2,000,000.00 registered shares of a single class, with a nominal value per ordinary share of EUR 1,030.00.

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

Shareholder	Number of shares beneficially owned	Per cent.
BBK Banking Foundation	1,140,000	57%
Kutxa Banking Foundation	640,000	32%
Vital Banking Foundation	220,000	11%
<b>TOTAL</b>	<b>2,000,000.00</b>	<b>100%</b>

In order to limit the influence of the majority shareholder, the bylaws (*Estatutos Sociales*) of Kutxabank provide that passing the following resolutions in a General Shareholders' Meeting will require the favourable vote of a majority representing 59% of the subscribed share capital with voting rights: (i) share capital increase with full or partial exclusion of pre-emptive rights; (ii) share capital decreases; (iii) issuances of securities conferring the right to acquire or subscribe for shares; (iv) corporate transformation, merger, de-merger, dissolution or transfer of all the company's assets and liabilities; (v) determination of the number of directors; and (vi) amendments to the bylaws (*Estatutos Sociales*).

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

## Credit Rating

The Issuer has been assigned a credit rating of "Baa2" by Moody's, "BBB" by S&P and "BBB+" by Fitch.

## Overview of financial information

The sections below contain financial information of Kutxabank extracted from their relevant financial statements, which have been prepared in accordance with IFRS-EU (the financial information as of, and for the year ended on, 31 December 2018 and 2017) and IFRS-EU, taking into account International Accounting Standard (IAS) 34, on Interim Financial Reporting (the financial information as of, and for the six month-period ended 30 June 2019).

Kutxabank publishes its stand-alone and consolidated financial statements as well as the half-year consolidated financial statements corresponding to the first six months of the year.

### *Financial information as of, and for the year ended on, 31 December 2018 and 2017*

The table below includes the consolidated balance sheets of the Kutxabank Group as of 31 December 2018 and 2017:

ASSETS	2018	2017	LIABILITIES AND EQUITY	2018	2017
<b>Cash, cash balances at central banks and other demand deposits</b>	<b>5,748,043</b>	<b>4,407,638</b>	<b>Financial liabilities held for trading</b>	<b>75,782</b>	<b>83,364</b>
<b>Financial assets held for trading</b>	<b>73,868</b>	<b>83,770</b>	Derivatives	75,782	83,364
Derivatives	73,868	83,770	Short positions	-	-
Equity instruments	-	-	Deposits	-	-
Debt securities	-	-	Central banks	-	-
Loans and advances	-	-	Credit institutions	-	-
Central banks	-	-	Customers	-	-
Credit institutions	-	-	Debt securities issued	-	-
Customers	-	-	Other financial liabilities	-	-
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	<b>Financial liabilities designated at fair value through profit or loss</b>	-	-
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>86,438</b>	<b>6,103</b>	Deposits	-	-
Equity instruments	48,571	6,103	Central banks	-	-
Debt securities	34,765	-	Credit institutions	-	-
			Customers	-	-



Loans and advances	3,102	-	Debt securities issued	-	-
Central banks	-	-	Other financial liabilities	-	-
Credit institutions	-	-	<i>Memorandum item: subordinated liabilities</i>	-	-
Customers	3,102	-			
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	<b>Financial liabilities at amortised cost</b>	<b>51,018,168</b>	<b>50,063,009</b>
<b>Financial assets designated at fair value through profit or loss</b>	-	<b>29,136</b>	Deposits	47,587,087	46,271,964
Debt securities	-	29,136	Central banks	3,963,915	3,980,155
Loans and advances	-	-	Credit institutions	390,582	479,257
Central banks	-	-	Customers	43,232,590	41,812,552
Credit institutions	-	-	Debt securities issued	2,873,653	3,138,943
Customers	-	-	Other financial liabilities	557,428	652,102
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	<i>Memorandum item: subordinated liabilities</i>	-	-
<b>Financial assets at fair value through other comprehensive income</b>	<b>5,000,429</b>	<b>4,896,559</b>	<b>Derivatives – hedge accounting</b>	<b>131,337</b>	<b>148,846</b>
Equity instruments	1,234,596	1,372,566	<b>Fair value changes of the hedged items in portfolio hedge of interest rate risk</b>	-	-
Debt securities	3,765,833	3,523,993	<b>Liabilities under insurance and reinsurance contracts</b>	<b>592,217</b>	<b>626,854</b>
Loans and advances	-	-	<b>Provisions</b>	<b>500,520</b>	<b>566,240</b>
Central banks	-	-	Pensions and other post-employment defined benefit obligations	278,174	328,314
Credit institutions	-	-	Other long-term employee benefits	53,899	52,595
Customers	-	-	Pending legal issues and tax litigation	657	679
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	1,441,335	1,180,526	Commitments and guarantees given	35,635	34,816
<b>Financial assets at amortised cost</b>	<b>42,553,248</b>	<b>42,807,794</b>	Other provisions	132,155	149,836
Debt securities	735,499	248,761	<b>Tax liabilities</b>	<b>285,054</b>	<b>269,110</b>
Loans and advances	41,817,749	42,559,033	Current tax liabilities	13,493	20,055
Central banks	-	-	Deferred tax liabilities	271,561	249,055
Credit institutions	581,367	552,660	<b>Share capital repayable on demand</b>	-	-
Customers	41,236,382	42,006,373	<b>Other liabilities</b>	<b>195,843</b>	<b>214,983</b>
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	5,123,810	5,073,302	<b>Liabilities included in disposal groups classified as held for sale</b>	-	-
<b>Derivatives – hedge accounting</b>	<b>124,106</b>	<b>174,079</b>	<b>TOTAL LIABILITIES</b>	<b>52,798,921</b>	<b>51,972,406</b>
<b>Fair value changes of the hedged items in portfolio hedge of interest rate risk</b>	-	-	<b>EQUITY</b>		
<b>Investments in joint ventures and associates</b>	<b>408,748</b>	<b>514,522</b>	<b>Shareholders' equity</b>	<b>5,256,690</b>	<b>5,031,608</b>
Joint ventures	-	-	<b>Share capital</b>	<b>2,060,000</b>	<b>2,060,000</b>
Associates	408,748	514,522	Paid up capital	2,060,000	2,060,000
<b>Assets under reinsurance and insurance contracts</b>	<b>44,301</b>	<b>48,635</b>	Unpaid capital which has been called up	-	-
<b>Tangible assets</b>	<b>979,833</b>	<b>1,015,286</b>	<i>Memorandum item: uncalled capital</i>	-	-
Property, plant and equipment	817,816	844,019	<b>Share premium</b>	-	-
For own use	707,722	724,686	<b>Equity instruments issued other than capital</b>	-	-
Leased out under an operating lease	110,094	119,333	Equity component of compound financial instruments	-	-
<b>Investment property</b>	<b>162,017</b>	<b>171,267</b>	<b>Other equity instruments issued</b>	-	-
<i>Of which: leased out under an operating lease</i>	<i>106,247</i>	<i>111,095</i>	<b>Other equity items</b>	-	-
<i>Memorandum item: acquired under lease</i>	-	-	<b>Retained earnings</b>	<b>547,406</b>	<b>420,891</b>
<b>Intangible assets</b>	<b>361,502</b>	<b>357,158</b>	<b>Revaluation reserves</b>	-	-
Goodwill	301,457	301,457	<b>Other reserves</b>	<b>2,444,097</b>	<b>2,364,185</b>
Other intangible assets	60,045	55,701	Reserves or accumulated losses of investments in joint ventures and associates	50,315	25,852
<b>Tax assets</b>	<b>1,922,594</b>	<b>1,960,893</b>	Other	2,393,782	2,338,333
Current tax assets	23,360	34,786	<b>(-) Treasury shares</b>	-	-
Deferred tax assets	1,899,234	1,926,107	<b>Profit attributable to owners of the Parent</b>	<b>332,277</b>	<b>301,954</b>
<b>Other assets</b>	<b>210,822</b>	<b>252,760</b>	<b>(-) Interim dividends</b>	<b>(127,090)</b>	<b>(115,422)</b>
Insurance contracts linked to pensions	-	-	<b>Accumulated other comprehensive income</b>	<b>311,853</b>	<b>429,121</b>
Inventories	107,771	178,889	<b>Items that will not be reclassified to profit or loss</b>	<b>205,015</b>	<b>(48,491)</b>
Other	103,051	73,871	Actuarial gains or (-) losses on defined benefit pension plans	(49,015)	(48,491)
<b>Non-current assets and disposal groups classified as held for sale</b>	<b>864,517</b>	<b>887,408</b>	Non-current assets and disposal groups classified as held for sale	-	-
			Share of other recognised Income and expense of investments in joint ventures and associates	1,881	-
			Fair value changes of equity instruments measured at fair value through other comprehensive income	252,149	-

			Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
			Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
			Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
			Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
			<b>Items that may be reclassified to profit or loss</b>	<b>106,838</b>	<b>477,612</b>
			Hedge of net investments in foreign operations [effective portion]	-	-
			Foreign currency translation	-	-
			Hedging derivatives. Cash flow hedges reserve [effective portion]	(6,612)	(7,001)
			Fair value changes of debt instruments (and equity instruments in 2017) measured at fair value through other comprehensive income	113,311	484,022
			Hedging instruments [not designated elements]	-	-
			Non-current assets and disposal groups classified as held for sale	-	-
			Share of other recognised income and expense of investments in joint ventures and associates	139	591
			Minority interests [non-controlling interests]	10,985	8,606
			Accumulated other comprehensive income	978	1,157
			Other items	10,007	7,449
			<b>TOTAL EQUITY</b>	<b>5,579,528</b>	<b>5,469,335</b>
<b>TOTAL ASSETS</b>	<b>58,378,449</b>	<b>57,441,741</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>58,378,449</b>	<b>57,441,741</b>
			<b>MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES</b>		
			<b>Loan commitments given</b>	<b>5,574,701</b>	<b>5,008,028</b>
			<b>Financial guarantees given</b>	<b>458,031</b>	<b>408,447</b>
			<b>Other commitments given</b>	<b>2,806,774</b>	<b>2,771,848</b>

The table below includes the consolidated income statements of the Kutxabank Group for the years ended 31 December 2018 and 2017:

	2018	2017
<b>Interest income</b>	<b>646,458</b>	<b>650,982</b>
Financial assets at fair value through other comprehensive income	69,914	80,853
Financial assets at amortised cost	561,818	557,852
Other interest income	14,726	12,277
<b>Interest expenses</b>	<b>(85,110)</b>	<b>(92,250)</b>
<b>Expenses on share capital repayable on demand</b>	<b>-</b>	<b>-</b>
<b>NET INTEREST INCOME</b>	<b>561,348</b>	<b>558,732</b>
<b>Dividend income</b>	<b>53,722</b>	<b>49,681</b>
<b>Share of the profit or loss of entities accounted for using the equity method</b>	<b>21,057</b>	<b>17,555</b>
<b>Fee and commission income</b>	<b>420,729</b>	<b>422,884</b>
<b>Fee and commission expenses</b>	<b>(35,219)</b>	<b>(43,322)</b>
<b>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net</b>	<b>7,038</b>	<b>271,013</b>
Financial assets at amortised cost	6,959	10,425
Other financial assets and liabilities	79	260,588
<b>Gains or losses on financial assets and liabilities held for trading, net</b>	<b>1,004</b>	<b>1,953</b>
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,004	1,953
<b>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net</b>	<b>49,359</b>	<b>-</b>
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	49,359	-
<b>Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net</b>	<b>-</b>	<b>397</b>
<b>Gains or losses from hedge accounting, net</b>	<b>-</b>	<b>290</b>
<b>Exchange differences (gain or loss), net</b>	<b>1,167</b>	<b>2,538</b>

<b>Other operating income</b>	<b>66,347</b>	<b>73,610</b>
<b>Other operating expenses</b>	<b>(116,174)</b>	<b>(122,172)</b>
<b>Income from assets under insurance and reinsurance contracts</b>	<b>207,539</b>	<b>190,558</b>
<b>Expenses of liabilities under insurance and reinsurance contracts</b>	<b>(97,637)</b>	<b>(92,019)</b>
<b>GROSS INCOME</b>	<b>1,140,280</b>	<b>1,331,698</b>
<b>Administrative expenses:</b>	<b>(595,212)</b>	<b>(626,596)</b>
Staff costs	(419,616)	(434,393)
Other administrative expenses	(175,596)	(192,203)
<b>Depreciation and amortisation charge</b>	<b>(55,234)</b>	<b>(54,997)</b>
<b>Provisions or reversal of provisions</b>	<b>(28,005)</b>	<b>(138,248)</b>
<b>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net</b>	<b>(16,927)</b>	<b>(86,262)</b>
Financial assets at fair value through other comprehensive income	75	(57,850)
Financial assets at amortised cost	(17,002)	(28,412)
<b>Impairment or reversal of impairment of investments in joint ventures and associates</b>	<b>146</b>	<b>(4,123)</b>
<b>Impairment or reversal of impairment on non-financial assets</b>	<b>(17,855)</b>	<b>(44,565)</b>
Tangible assets	(6,607)	(19,660)
Intangible assets	-	-
Other	(11,248)	(24,905)
<b>Gains or losses on derecognition of non-financial assets, net</b>	<b>22,556</b>	<b>36,704</b>
<b>Negative goodwill recognised in profit or loss</b>	<b>-</b>	<b>-</b>
<b>Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations</b>	<b>(43,273)</b>	<b>(131,742)</b>
<b>PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>406,476</b>	<b>281,869</b>
Tax expense or income related to profit or loss from continuing operations	(73,087)	21,362
<b>PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>333,389</b>	<b>303,231</b>
Profit or loss after tax from discontinued operations	-	-
<b>PROFIT FOR THE YEAR</b>	<b>333,389</b>	<b>303,231</b>
<b>Attributable to minority interests (non-controlling interests)</b>	<b>1,112</b>	<b>1,277</b>
<b>Attributable to owners of the Parent</b>	<b>332,277</b>	<b>301,954</b>

In the year ended 31 December 2018 the Group obtained net income<sup>15</sup> of EUR 332.28 million (EUR 301.95 million in the one-year period ended 31 December 2017). The net interest income of the Group for the one-year period ended 31 December 2018 amounted to EUR 561.35 million (EUR 558.73 million for the one-year period ended 31 December 2017) and the net commissions<sup>16</sup> reached EUR 385.51 million during that one-year period (EUR 379.56 million during the one-year period ended 31 December 2017), 56% of which derives from asset management services, 12% from payment services, 30% from other products and another 2% from other sources (for the one-year period ended 31 December 2018, the net commissions represented 0.66% of the total assets). The above resulted in a Basic Margin<sup>17</sup> of EUR 946.86 million for the one-year period ended 31 December 2018 (EUR 938.29 for the one-year period ended 31 December 2017). The income generated by the insurance business reached EUR 135.66 million during the one-year period ended 31 December 2018 (EUR 123.57 million during the one-year period ended 31 December 2017).

The above results are the outcome of the positive tone of activity of the Group's main product and services during the year ended 31 December 2018: the gross income of personal banking had a year-on-year increase

<sup>15</sup> "Net income" as used throughout the Prospectus means the "Profit for the year attributable to owners of the Parent".

<sup>16</sup> Net commissions is an APM, the definition, explanation, use and reconciliation of which is set out in "Alternative Performance Measures".

<sup>17</sup> Basic Margin is an APM, the definition, explanation, use and reconciliation of which is set out in "Alternative Performance Measures".

of 11.0%, the commissions obtained from the assets under management had a year-on-year increase of 2.7% and the insurance contribution through Other Operating Income had a year-on-year increase of 11.5%. In general terms, in the one-year period ended 31 December 2018, there has been a significant growth of pure banking business, which represented 88.31% of the gross income<sup>18</sup> for the referred period (74.21% for the one-year period ended 31 December 2017).

The reduction of the operating expenses<sup>19</sup> (from EUR 681.59 million in the one-year period ended 31 December 2017 to EUR 650.45 million in the one-year period ended 31 December 2018) resulting from the Group's cost containing policy (the operating expenses have been annually reduced at a compound average rate of 4.5% in average during the last six years) also contributed to these results, with a ratio of Basic Margin to operating expenses<sup>20</sup> of 145.59% (a growth of 8 basis points from the year ended 31 December 2017).

For that one year-period the Return on Assets<sup>21</sup> was 0.57% (a growth of 4 basis points from the year ended 31 December 2017), the Return on Equity<sup>22</sup> was 6.37% (a growth of 33 basis points from the year ended 31 December 2017), the Return on Tangible Equity<sup>23</sup> was 6.84% (a growth of 35 basis points from the year ended 31 December 2017) and a Return on Risk-Weighted Assets<sup>24</sup> of 1.12% (a growth of 13.2 basis points from the year ended 31 December 2017).

During the year ended 31 December 2018 the commercial activity in all segments and products resulted in a year-on-year growth of the performing retail lending of 0.3% and of the investments funds takings of 2.7%.

#### *Liquidity and funding*

As at 31 December 2018 the Group covered 23.35 times its debt maturities in the next 12 months (15.7 times in average during 2018) and the Loan to Deposits Ratio<sup>25</sup> of the Group was 97.68%.

The Group currently complies with its liquidity regulatory requirements (please see "*Capital adequacy and regulatory metrics*" above) and had a LCR (as defined in "*Capital, liquidity and funding requirements*" section) buffer to debt maturities in the next 12 months of 13.3 times in average during 2018, 21 times as at 31 December 2018. As at 31 December 2018, the liquidity buffer of the Group (as defined in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014) was EUR 7,818.61 million (EUR 8,278.00 million as at 30 June 2019).

The main sources of liquidity of the Group are deposits which represent 93.87% of its total funding sources as at 31 December 2018, being the remaining 6.13% mainly covered bonds and ECB funding (on average, this remaining wholesale markets funding represented 9.7% of the total funding in the one-year period

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<sup>18</sup> Banking business to gross income is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>19</sup> Operating expenses is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>20</sup> Basic Margin to operating expenses is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>21</sup> Return on Assets is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>22</sup> Return on Equity is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>23</sup> Return on Tangible Equity is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>24</sup> Return on Risk-Weighted Assets is an APM, the definition, explanation, use and reconciliation of which is set out in "*Alternative Performance Measures*".

<sup>25</sup> The Loans to Deposits Ratio is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of the Issuer—Alternative Performance Measures*".

ended 31 December 2018 (with the ECB funding representing 0.57% of the total assets in average during that year)).

**Financial information as of, and for the six month-period ended 30 June 2019**

The table below includes the consolidated balance sheet of the Kutxabank Group as at 30 June 2019:

ASSETS	30/06/19	31/12/18 (*)	LIABILITIES AND EQUITY	30/06/19	31/12/18 (*)
Cash, cash balances at central banks and other demand deposits	5,969,408	5,748,043	Financial liabilities held for trading	83,348	75,782
Financial assets held for trading	81,394	73,868	Financial liabilities designated at fair value through profit or loss	-	-
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	<i>Memorandum item: subordinated liabilities</i>	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	86,938	86,438	Financial liabilities at amortised cost	52,969,935	51,018,168
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	<i>Memorandum item: subordinated liabilities</i>	-	-
Financial assets designated at fair value through profit or loss	-	-	Derivatives – hedge accounting	201,908	131,337
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	-	-	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Financial assets at fair value through other comprehensive income	5,607,144	5,000,429	Liabilities under insurance and reinsurance contracts	608,975	592,217
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	1,609,761	1,441,335	Provisions	490,470	500,520
Financial assets at amortised cost	44,429,321	42,553,248	Pensions and other post-employment defined benefit obligations	259,540	278,174
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	5,063,854	5,123,810	Other long-term employee benefits	54,110	53,899
Derivatives – hedge accounting	128,148	124,106	Pending legal issues and tax litigation	657	657
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	Commitments and guarantees given	38,039	35,635
Investments in joint ventures and associates	196,305	408,748	Other provisions	138,124	132,155
Joint ventures	-	-	Tax liabilities	331,871	285,054
Associates	196,305	408,748	Current tax liabilities	9,444	13,493
Assets under reinsurance and insurance contracts	47,825	44,301	Deferred tax liabilities	322,427	271,561
Tangible assets	968,101	979,833	Share capital repayable on demand	-	-
Property, plant and equipment	816,558	817,816	Other liabilities	221,468	195,843
For own use	711,099	707,722	Liabilities included in disposal groups classified as held for sale	-	-
Leased out under an operating lease	105,459	110,094	<b>TOTAL LIABILITIES</b>	<b>54,907,975</b>	<b>52,798,921</b>
Investment property	151,543	162,017	<b>EQUITY</b>		
<i>Of which: leased out under an operating lease</i>	98,215	106,247	<b>Shareholders' equity</b>	<b>5,415,927</b>	<b>5,256,690</b>
<i>Memorandum item: acquired under lease</i>	-	-	Share capital	2,060,000	2,060,000
Intangible assets	358,069	361,502	Paid up capital	2,060,000	2,060,000
Goodwill	301,457	301,457	Unpaid capital which has been called up	-	-
Other intangible assets	56,612	60,045	<i>Memorandum item: uncalled capital</i>	-	-
Tax assets	1,886,229	1,922,594	Share premium	-	-
Current tax assets	21,747	23,360	Equity instruments issued other than capital	-	-
Deferred tax assets	1,864,482	1,899,234	Equity component of compound financial instruments	-	-
Other assets	234,366	210,822	Other equity instruments issued	-	-
Insurance contracts linked to pensions	-	-	Other equity items	-	-
Inventories	106,728	107,771	Retained earnings	767,423	547,406
Other	127,638	103,051	Revaluation reserves	-	-
Non-current assets and disposal groups classified as held for sale	829,951	864,517	Other reserves	2,391,222	2,444,097
			(-) Treasury shares	-	-
			Profit attributable to owners of the Parent	197,282	332,277
			(-) Interim dividends	-	(127,090)

			<b>Accumulated other comprehensive income</b>	<b>489,504</b>	<b>311,853</b>
			<b>Items that will not be reclassified to profit or loss</b>	337,582	205,015
			Actuarial gains or (-) losses on defined benefit pension plans	(49,189)	(49,015)
			Non-current assets and disposal groups classified as held for sale	-	-
			Share of other recognised income and expense of investments in joint ventures and associates	3,339	1,881
			Fair value changes of equity instruments measured at fair value through other comprehensive income	383,432	252,149
			Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
			Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
			Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
			Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
			<b>Items that may be reclassified to profit or loss</b>	<b>151,922</b>	<b>106,838</b>
			Hedge of net investments in foreign operations [effective portion]	-	-
			Foreign currency translation	-	-
			Hedging derivatives. Cash flow hedges reserve [effective portion]	(5,273)	(6,612)
			Fair value changes of debt instruments measured at fair value through other comprehensive income	157,226	113,311
			Hedging instruments [not designated elements]	-	-
			Non-current assets and disposal groups classified as held for sale	-	-
			Share of other recognised income and expense of investments in joint ventures and associates	(31)	139
			<b>Minority interests [non-controlling interests]</b>	<b>9,793</b>	<b>10,985</b>
			Accumulated other comprehensive income	773	978
			Other items	9,020	10,007
			<b>TOTAL EQUITY</b>	<b>5,915,224</b>	<b>5,579,528</b>
<b>TOTAL ASSETS</b>	<b>60,823,199</b>	<b>58,378,449</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>60,823,199</b>	<b>58,378,449</b>
			<b>MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES</b>		
			Loan commitments given	5,441,018	5,574,701
			Financial guarantees given	439,801	458,031
			Other commitments given	2,946,727	2,806,774

(\*) Presented for comparison purposes only.

The table below includes the consolidated income statement of the Kutxabank Group for the six month-period ended 30 June 2019:

	<b>30/06/19</b>	<b>30/06/18 (*)</b>
<b>Interest income</b>	<b>325,847</b>	<b>318,755</b>
Financial assets at fair value through other comprehensive income	30,178	34,042
Financial assets at amortised cost	287,854	279,296
Other interest income	7,815	5,417
<b>Interest expenses</b>	<b>(43,734)</b>	<b>(42,265)</b>
<b>Expenses on share capital repayable on demand</b>	<b>-</b>	<b>-</b>
<b>NET INTEREST INCOME</b>	<b>282,113</b>	<b>276,490</b>
<b>Dividend income</b>	<b>28,395</b>	<b>31,131</b>
<b>Share of the profit or loss of entities accounted for using the equity method</b>	<b>4,586</b>	<b>10,257</b>
<b>Fee and commission income</b>	<b>211,264</b>	<b>210,832</b>
<b>Fee and commission expenses</b>	<b>(17,933)</b>	<b>(17,317)</b>
<b>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net</b>	<b>6,600</b>	<b>4,172</b>
Financial assets at amortised cost	4,069	4,173
Other financial assets and liabilities	2,531	(1)
<b>Gains or losses on financial assets and liabilities held for trading, net</b>	<b>316</b>	<b>569</b>
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	316	569

Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(8,248)	26,483
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	(8,248)	26,483
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	-	-
Exchange differences, net	(313)	1,191
Other operating income	25,071	41,856
Other operating expenses	(38,251)	(40,676)
Income from assets under insurance and reinsurance contracts	119,752	110,662
Expenses of liabilities under insurance and reinsurance contracts	(60,833)	(57,440)
<b>GROSS INCOME</b>	<b>552,519</b>	<b>598,210</b>
<b>Administrative expenses</b>	<b>(299,970)</b>	<b>(300,404)</b>
Staff costs	(214,261)	(213,661)
Other administrative expenses	(85,709)	(86,743)
<b>Depreciation and amortisation charge</b>	<b>(26,799)</b>	<b>(26,317)</b>
<b>Provisions or reversal of provisions</b>	<b>(32,296)</b>	<b>(22,221)</b>
<b>Impairment or reversal of impairment and gains or losses due to modifications of cash flows on financial assets not measured at fair value through profit or loss and modification gains or losses, net</b>	<b>(15,079)</b>	<b>(3,401)</b>
Financial assets at fair value through other comprehensive income	(440)	(7)
Financial assets at amortised cost	(14,639)	(3,394)
<b>Impairment or reversal of impairment of investments in joint ventures and associates</b>	<b>(3,109)</b>	<b>-</b>
<b>Impairment or reversal of impairment on non-financial assets</b>	<b>(4,280)</b>	<b>(3,468)</b>
Tangible assets	(2,049)	(1,403)
Intangible assets	-	-
Other	(2,231)	(2,065)
<b>Gains or losses on derecognition of non-financial assets, net</b>	<b>93,373</b>	<b>12,620</b>
<b>Negative goodwill recognised in profit or loss</b>	<b>-</b>	<b>-</b>
<b>Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations</b>	<b>(47,496)</b>	<b>(17,728)</b>
<b>PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>216,863</b>	<b>237,291</b>
<b>Tax expense or income related to profit or loss from continuing operations</b>	<b>(18,923)</b>	<b>(49,125)</b>
<b>PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>197,940</b>	<b>188,166</b>
<b>Profit or loss after tax from discontinued operations</b>	<b>-</b>	<b>-</b>
<b>PROFIT FOR THE PERIOD</b>	<b>197,940</b>	<b>188,166</b>
<b>Attributable to minority interests (non-controlling interests)</b>	<b>658</b>	<b>331</b>
<b>Attributable to owners of the Parent</b>	<b>197,282</b>	<b>187,835</b>
<b>PROFIT FOR THE PERIOD</b>	<b>197,940</b>	<b>188,166</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>179,671</b>	<b>33,850</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>134,533</b>	<b>31,260</b>
Actuarial gains or losses on defined benefit pension plans	(233)	(365)
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	1,445	1,514
Fair value changes of equity instruments measured at fair value through other comprehensive income	187,352	41,959
Gains or losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	(54,031)	(11,848)
<b>Items that may be reclassified to profit or loss</b>	<b>45,138</b>	<b>2,590</b>
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	1,922	(2,972)
Valuation gains or losses taken to equity	1,587	(3,374)
Transferred to profit or loss	335	402
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-

Hedging instruments [not designated elements]	-	-
<i>Valuation gains or losses taken to equity</i>	-	-
<i>Transferred to profit or loss</i>	-	-
<i>Other reclassifications</i>	-	-
Debt instruments at fair value through other comprehensive income	61,449	6,671
<i>Valuation gains or losses taken to equity</i>	63,530	6,670
<i>Transferred to profit or loss</i>	(2,081)	1
<i>Other reclassifications</i>	-	-
Non-current assets and disposal groups held for sale	-	-
<i>Valuation gains or losses taken to equity</i>	-	-
<i>Transferred to profit or loss</i>	-	-
<i>Other reclassifications</i>	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(170)	12
Income tax relating to items that may be reclassified to profit or loss	(18,063)	(1,121)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>377,611</b>	<b>222,016</b>
Attributable to minority interests (non-controlling interests)	453	555
Attributable to owners of the Parent	377,158	221,461

<sup>(1)</sup> Presented for comparison purposes only.

### Alternative Performance Measures

This Prospectus (and the documents incorporated by reference in this Prospectus) contains certain management measures of performance or APMs, which are used by management to evaluate the Kutxabank Group's overall performance, financial position or liquidity. These measures are used in the Bank's planning, operational and financial decision-making and are commonly used in the finance sector as indicators to monitor institutions' assets, liabilities and economic/financial positions.

These APMs are not audited, reviewed or subject to review by Kutxabank's auditors and are not measures required by, or presented in accordance with, IFRS-EU. Many of these APMs are based on Kutxabank's internal estimates, assumptions and calculations. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by Kutxabank, 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 Kutxabank 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 financial statements incorporated by reference in this Prospectus.

Kutxabank 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.

**Banking business to gross income:** this measure shows what percentage of the "gross income" comes from pure banking business profit.

	June 2019	December 2018	December 2017
		<i>(€ million, except %)</i>	
Numerator	Income generated by the banking business	521.18	1,006.93
Denominator	Gross income	552.52	1,140.28
	<b>Banking business to gross income</b>	<b>94.33%</b>	<b>88.31%</b>
			<b>74.21%</b>



**Basic Margin:** this is a measure of the profits obtained by the Group related to the financial activity which are considered as recurring profit.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Net interest income	282.11	561.35	558.73
Plus	Net commissions	193.33	385.51	379.56
	<b>Basic Margin</b>	<b>475.44</b>	<b>946.86</b>	<b>938.29</b>

**Basic Margin to operating expenses:** this measure is used to measure the cost efficiency level of the Group by showing to what extent the basic margin covers the Group's cost base.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Basic margin	475.44	946.86	938.29
Denominator	Operating expenses	326.77	650.45	681.59
	<b>Basic Margin to operating expenses</b>	<b>145.50%</b>	<b>145.57%</b>	<b>137.66%</b>

**Cash Balances:** this measure shows the available unencumbered cash and central Banks balances.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
	Cash, cash balances at central banks and other demands deposits	5,956.34	5,724.88	4,151.22
Minus	Reserve requirements	430.42	409.16	392.31
Minus	Other demand deposits	220.31	226.80	227.10
	<b>Cash Balances</b>	<b>5,305.61</b>	<b>5,088.93</b>	<b>3,531.82</b>

**Commissions and income generated by the insurance business to total income:** this measure shows the percentage of the Group's regular financial activities income that comes from complementary income sources other than the Net Interest Income.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Net fee and commission income	193.33	385.51	379.56
Plus	Income from assets under insurance or reinsurance contracts	119.75	207.54	190.56
Minus	Expenses of liabilities from assets under insurance or reinsurance contracts	60.83	97.64	92.02
Denominator	Net interest income	282.11	561.35	558.73
Plus	Net commissions	193.33	385.51	379.56
Plus	Income/Expenses from assets under insurance or reinsurance contracts	58.92	109.90	98.54
	<b>Commissions and income generated by the insurance business to total income</b>	<b>47.21%</b>	<b>46.88%</b>	<b>46.11%</b>

**Contribution of the insurance business to the total banking business:** this measure shows the percentage of the "gross income" that arises from the Group's insurance companies financial activities.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Group's Insurance companies' profits consolidated in the gross income	71.70	135.66	123.57
Denominator	Banking business	521.18	1,006.93	988.27
	<b>Contribution of the insurance business to the total banking business</b>	<b>13.76%</b>	<b>13.47%</b>	<b>12.50%</b>

**Cost of credit risk:** 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.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Sum of the Loan-loss provisions of the last four quarters	28.25	17.00	28.41
Denominator	Gross loans and advances to customers. Simple average of the last four quarters	43,191.40	43,093.72	44,040.64
<b>Cost of credit risk</b>		<b>0.07%</b>	<b>0.04%</b>	<b>0.06%</b>

**Coverage of the acquired or repossessed assets:** this indicator shows the level of coverage of the acquired and repossessed assets and, therefore, the net exposure to them (once provisions are deducted from the gross value of the exposure) and the evolution of the quality of credit risk incurred with customers. It also helps to assess the management of that risk.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Write-downs associated with acquired assets	723.06	707.84	907.60
Denominator	Gross value of acquired assets	1,595.85	1,621.25	1,823.23
<b>Coverage of the acquired or repossessed assets</b>		<b>45.31%</b>	<b>43.66%</b>	<b>49.78%</b>

**Credits to clients to total assets:** this measure shows the weight of the lending activity towards customers in the total balance sheet of the Group.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Loans and advances to customers	42,875.38	41,239.48	42,006.37
Denominator	Total assets	60,823.20	58,378.45	57,441.74
<b>Credits to clients to total assets</b>		<b>70.49%</b>	<b>70.64%</b>	<b>73.13%</b>

**Deposits to total assets:** this measure shows the weight of the customers deposits in the total balance sheet of the Group.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Deposits to customers	45,117.86	43,232.59	41,812.55
	Minus Single mortgage-backed bonds	1,138.09	1,213.79	1,685.98
Denominator	Total assets	60,823.20	58,378.45	57,441.74
<b>Deposits to total assets</b>		<b>72.31%</b>	<b>72.12%</b>	<b>69.86%</b>

**Deposits to total funding:** this measure shows the weight of the Customers deposits among the funding sources.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Deposits to customers	45,117.86	43,232.59	41,812.55
	Minus Single mortgage-backed bonds	1,138.09	1,128.79	1,685.98
Denominator	Deposits to customers, excluding single mortgage-backed bonds	43,979.77	42,103.80	40,126.57
	Plus Wholesale market funding	2,520.99	2,754.14	5,160.99
<b>Deposits to total funding</b>		<b>94.58%</b>	<b>93.86%</b>	<b>88.60%</b>

**Fixed income securities to total assets:** this measure shows the weight of the fixed income portfolio in the total balance sheet of the Group.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Fixed income portfolio	4,107.90	3,775.65	2,769.58
Denominator	Total assets	60,823.20	58,378.45	57,441.74
	<b>Fixed income securities to total assets</b>	<b>6.75%</b>	<b>6.47%</b>	<b>4.82%</b>

**Income generated by the banking business:** this measure shows the contribution of income items deriving from pure banking business.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Gross income	552.52	1,140.28	1,331.70
Minus	Dividend income	28.40	53.72	49.68
Minus	Share of the profit or loss of entities accounted for using the equity method	4.59	21.06	17.56
Minus	Trading income	-1.65	58.57	276.19
	<b>Income generated by the banking business</b>	<b>521.18</b>	<b>1,006.93</b>	<b>988.27</b>

**Income generated by the insurance business:** this measure shows the contribution of the Group's insurance companies to the "gross income".

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Net interest income	8.46	17.35	16.96
Plus	Net commissions	4.05	8.63	7.40
Plus	Dividend income	0.25	0.30	0.13
Plus	Trading income	0.00	-0.55	0.54
Plus	Other Operating Income	58.94	109.94	98.55
	<b>Income generated by the insurance business</b>	<b>71.70</b>	<b>135.66</b>	<b>123.57</b>

**Income generated by the insurance business to income generated by the banking business:** this measure shows the percentage of the "income generated by the banking business" that comes from "income generated by the insurance business".

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Income generated by the insurance business	71.70	135.66	123.57
Denominator	Income generated by the banking business	521.18	1,006.93	988.27
	<b>Income generated by the insurance business to income generated by the banking business</b>	<b>13.76%</b>	<b>13.47%</b>	<b>12.50%</b>

**Loan to Deposit (LtD) Ratio:** credit loans in respect of deposits. This is one of the most relevant liquidity indicators in the banking sector and it shows the ability of the entity to finance the loans to customers with the funds obtained from these ones.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Customer loans	42,875.38	41,239.48	42,006.37
Minus	Those already mobilised into asset-backed securities placed on the market	242.83	263.78	297.09
Denominator	Deposits to customers	45,117.86	43,232.59	41,812.55
Minus	Single mortgage-backed bonds	1,138.09	1,128.79	1,685.98
	<b>LtD Ratio</b>	<b>96.94%</b>	<b>97.32%</b>	<b>103.94%</b>

**Net commissions:** this APM is used by the Group to measure the margin obtained with respect to its fees and commissions.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Fee and commission income	211.26	420.73	422.88
Minus	Fee and commission expenses	17.93	35.22	43.32
	<b>Net commissions</b>	<b>193.33</b>	<b>385.51</b>	<b>379.56</b>

**NPAs:** the Group uses this APM to evaluate the size of the non-productive assets portfolio (non-performing loans and acquired/foreclosed assets).

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Impaired assets loans and advances to customers	1,526.60	1,686.11	2,176.50
Plus	Acquired/foreclosed assets	1,595.85	1,621.25	1,823.23
	<b>NPAs</b>	<b>3,122.45</b>	<b>3,307.36</b>	<b>3,999.73</b>

**NPAs to total assets:** the Group uses this APM to evaluate the size of the non-productive assets portfolio (non-performing loans and acquired/foreclosed assets).

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	NPA	3,122.45	3,307.36	3,999.73
	Minus Write-downs associated with NPA	1,603.99	1,627.24	1,850.78
Denominator	Total assets	60,823.20	58,378.45	57,441.74
	<b>NPA to total assets</b>	<b>2.50%</b>	<b>2.88%</b>	<b>3.74%</b>

**NPLs coverage ratio:** this indicator reflects the degree to which the impairment of non-performing loans has been covered via loan-loss provisions.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Impairment losses and provisions for credit risks	845.14	887.86	912.25
	Plus Impairment losses and provisions for contingent commitments	35.79	31.54	30.94
Denominator	Impaired assets loans and advances to customers	1,526.60	1,686.11	2,176.50
	Plus Contingent commitments	27.24	22.49	23.26
	<b>NPLs coverage ratio</b>	<b>56.69%</b>	<b>53.81%</b>	<b>42.88%</b>

**NPL Ratio:** 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.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Impaired assets loans and advances to customers, including contingents	1,553.84	1,708.59	2,199.76
Denominator	Gross loans and advances to customers, including contingents	46,021.90	44,278.67	44,946.00
	<b>NPL Ratio</b>	<b>3.38%</b>	<b>3.86%</b>	<b>4.89%</b>

**Operating expenses:** it is a measure that shows the costs incurred by Group to carry out the daily financial activities.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million)</i>	
Personnel expenses	214.26	419.62	434.39
Plus Other administration expenses	85.71	175.60	192.20
Plus Depreciation/amortisation	26.80	55.23	55.00
<b>Operating expenses</b>	<b>326.77</b>	<b>650.45</b>	<b>681.59</b>

**Real estate and developers credit exposure:** this APM is used by the Group to measure the risk towards real estate sector.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million)</i>	
Financing for real estate construction and development	839.06	993.39	1,250.02
Minus Write-downs associated with loans to Real Estate and developers	162.39	158.81	208.68
<b>Real estate and developers credit exposure</b>	<b>676.68</b>	<b>834.58</b>	<b>1,041.35</b>

**Real estate and developers credit exposure to total assets:** relationship between the exposure to real estate and developers in the loan book and total assets.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million, except %)</i>	
Numerator Financing for real estate construction and development	839.06	993.39	1,250.02
Minus Write-downs associated with loans to real estate and developers	162.39	158.81	208.68
Denominator Total assets	60,823.20	58,378.45	57,441.74
<b>Real estate and developers credit exposure to total assets</b>	<b>1.11%</b>	<b>1.43%</b>	<b>1.81%</b>

**Retail and SME loans to total loans:** this measure shows the weight of the lending activity to retail and SME customers since these segments represent a relevant business line for the Group.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million, except %)</i>	
Numerator Loans and advances to Retail and SME customers (gross amount)	35,549.78	34,741.54	34,634.21
Denominator Loans and advances to customers (gross amount)	43,813.96	42,232.59	43,035.86
<b>Retail and SME loans to total loans</b>	<b>81.14%</b>	<b>82.26%</b>	<b>80.48%</b>

**Return on Assets (ROA):** this ratio is used by the Group to measure the return obtained on its assets.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million, except %)</i>	
Numerator Net income (sum of the last four quarters)	342.42	332.28	302.95
Denominator Total average consolidated assets (simple average of the last four quarters)	59,067.99	57,988.63	57,114.05
<b>Return on Assets</b>	<b>0.58%</b>	<b>0.57%</b>	<b>0.53%</b>

**Return on Equity (ROE):** this ratio is used by the Group to measure the return obtained on its equity.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Net income (sum of the last four quarters)	342.42	332.28	301.95
Denominator	Total average consolidated equity (simple average of the last four quarters)	5,312.96	5,217.50	5,004.36
<b>Return on Equity</b>		<b>6.44%</b>	<b>6.37%</b>	<b>6.03%</b>

**Return on Risk-Weighted Assets (RORWA):** this ratio is used by the Group to measure the return obtained on its risk-weighted assets.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Net income (sum of the last four quarters)	342.42	332.28	301.95
Denominator	Total average consolidated Risk-Weighted assets. (simple average of the last four quarters)	29,777.03	29,563.79	30,433.33
<b>Return on Risk-Weighted Assets</b>		<b>1.15%</b>	<b>1.12%</b>	<b>0.99%</b>

**Return on Tangible Equity (ROTE):** this ratio is used by the Group to measure the return obtained on its tangible equity.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million, except %)</i>	
Numerator	Net income (sum of the last four quarters)	342.42	332.28	301.95
Denominator	Total average consolidated Tangible equity (simple average of the last four quarters)	4,954.51	4,858.68	4,650.39
<b>Return on Tangible Equity</b>		<b>6.91%</b>	<b>6.84%</b>	<b>6.49%</b>

**Total Non-Performing Assets (net):** the Group uses this APM to evaluate the size of the non-productive assets portfolio (non-performing loans and acquired/foreclosed assets) in net terms, after deducting all the write-downs associated with NPAs.

		<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
			<i>(€ million)</i>	
	Impaired assets loans and advances to customers, including contingents	1,553.84	1,708.59	2,199.76
Minus	Impairment losses and provisions for credit risks, including contingents	880.93	919.39	943.19
Plus	Acquired/foreclosed assets	1,595.85	1,621.25	1,823.23
Minus	Write-downs associated with Acquired/foreclosed assets	723.06	707.84	907.60
<b>Total Non-Performing Assets (net)</b>		<b>1,545.70</b>	<b>1,702.61</b>	<b>2,172.20</b>

**Trading income (TI):** this ratio is used by the Group to measure the return obtained on its tangible equity.

	<b>June 2019</b>	<b>December 2018</b>	<b>December 2017</b>
		<i>(€ million)</i>	
	6.60	7.04	271.01
	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		
Plus	0.32	1.00	1.95
	Gains or losses on financial assets and liabilities held for trading, net		
Plus	-8.25	49.36	0.00
	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net		
Plus	0.00	0.00	0.40
	Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net		
Plus	0.00	0.00	0.29
	Gains or losses from hedge accounting, net		
Plus	-0.31	1.17	2.54
	Exchange differences (gain or loss), net		
<b>Trading income</b>	<b>-1.65</b>	<b>58.57</b>	<b>276.19</b>

## CAPITAL, LIQUIDITY AND FUNDING REQUIREMENTS AND LOSS ABSORBING POWERS

The regulatory framework regarding the solvency of credit entities is established by the Regulation (EU) 575/2013, of 26 June, on prudential requirements for credit institutions and investment firms (the "**CRR**"), 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 any CRD IV Implementing Measures (as defined in the Conditions). 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, Law 10/2014, 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**").

BRRD, that has been implemented in Spain through Law 11/2015 and Royal Decree 1012/2015, also establishes certain requirements in terms of a minimum level of capital and eligible liabilities in relation to total liabilities and own funds (known as "**MREL**").

On 23 November 2016, the European Commission presented a comprehensive package of reforms amending CRR, the CRD IV Directive and the BRRD and the SRM Regulation. On 14 May 2019 the text was formally approved by the Council of the European Union. On 7 June 2019 the following regulations were published: (i) Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 (as amended, replaced or supplemented from time to time, the "**CRD V Directive**") amending the CRD IV Directive, (ii) Directive (EU) 2019/879 of the European Parliament and of the European Council of 20 May 2019 (as amended, replaced or supplemented from time to time, "**BRRD II**") amending, among other things, the BRRD as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms, (iii) Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 (as amended, replaced or supplemented from time to time, "**CRR II**") amending, among other things, the CRR as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements, and (iv) Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 (as amended, replaced or supplemented from time to time, the "**SRM Regulation II**") amending the SRM Regulation as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (the CRD V Directive, BRRD II, CRR II and the SRM Regulation II, the "**EU Banking Reforms**"). The EU Banking Reforms entered into force on 27 June 2019 and are stated to apply from 18 months plus one day after the date of their entry into force, which is scheduled for 29 December 2019, other than in the case of CRR II where a two year period is provided for, subject to certain exceptions.

The package of reforms presented by the European Commission on 23 November 2016 included a proposal to create a new asset class of "non preferred" senior debt. On 27 December 2017, Directive 2017/2399 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy was published in the Official Journal of the European Union. Before that, Royal Decree-Law 11/2017, of 23 June, approving urgent measures on financial matters created in Spain the new asset class of senior non preferred debt.

### Capital Requirements

Under CRD IV, the Issuer and the Group are required to hold a minimum amount of regulatory capital of 8% of RWAs of which at least 4.5% must be CET1 capital and at least 6% 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 minimum "Pillar 1" capital requirements, the supervisory authorities may require further capital to cover other risks. This may result in the imposition of further CET1, Tier 1 and total capital requirements on the Group and/or the Issuer pursuant to this "Pillar 2" framework. Following the introduction of the SSM, the ECB is in charge of assessing additional "Pillar 2" capital



requirements ("**P2R**") through supervisory review and evaluation process (the "**SREP**") assessments to be carried out at least on an annual basis (accordingly requirements may change from year to year).

In addition to the minimum "Pillar 1" capital requirements and the P2R, credit institutions must comply with the "combined buffer requirement" set out in the CRD IV Directive as implemented in Spain. 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% of RWAs; (ii) the global systematically important institutions ("**G-SIIs**") buffer, of between 1% and 3.5% of RWAs; (iii) the institution-specific countercyclical capital buffer (consisting of the weighted average of the counter-cyclical capital buffer rates that apply in the jurisdictions where the relevant credit exposures are located), which may be as much as 2.5% of RWAs (or higher pursuant to the competent authority); (iv) the other systemically important institutions ("**O-SII**") buffer, which may be as much as 2% of RWAs; and (v) the systemic risk buffer to prevent systemic or macro prudential risks, of at least 1% of RWAs (to be set by the Bank of Spain).

Neither the Bank nor the Group has been classified as G-SII or as O-SII by the 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 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0% for the third quarter of 2019 (requirements are revised each quarter). Some or all of the other buffers may also apply to the Bank 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 minimum "Pillar 1" capital requirements and the P2R of the institution and, accordingly, the "combined buffer requirement" is in addition to the minimum "Pillar 1" capital requirement and to the P2R, and therefore it would be the first layer of capital to be eroded pursuant to the applicable stacking order.

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, 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.

In addition, a new Article 16.a) of the BRRD, as recently amended by BRRD II (as defined below), better clarifies the stacking order between the "combined buffer requirement" and the MREL requirement. Pursuant to this new provision, a resolution authority will have the power to prohibit an entity from distributing more than the "maximum distributable amount" for own funds and eligible liabilities (calculated in accordance with the new Article 16.a)(4) of the BRRD) (the "**MREL-Maximum Distributable Amount Provision**") through distribution of dividends, variable remuneration and payments to holders of AT1 instruments, where it meets the "combined buffer requirement" but fails to meet that "combined buffer requirement" when considered in addition to the MREL requirements. The referred Article 16.a) of the BRRD includes a potential nine-month grace period whereby the resolution authority will assess on a monthly basis whether to exercise its powers under the MREL-Maximum Distributable Amount Provision before such resolution authority is compelled to exercise its power under the provisions (subject to certain limited exceptions).

As communicated by the EBA on 1 July 2016, in addition to the minimum "Pillar 1" capital requirements, the P2R and the "combined buffer requirements", the supervisor can also set a "Pillar 2" capital guidance ("P2G"). Thus, SREP decisions of 2016 onwards differentiate between P2R and P2G. While P2R are binding requirements and breaches can have direct legal consequences for the banks, P2G is not directly binding and a failure to meet it does not automatically trigger legal action, even though the ECB expects banks to meet P2G. Following this clarification, the clarifications contained in the "EBA Pillar 2 Roadmap" (April 2017) and the guidelines on the revised common procedures and methodologies for the SREP and supervisor stress testing published by the EBA on 19 July 2018, banks are expected to meet the P2G with CET1 capital on top of the level of binding capital requirements ("Pillar 1" capital requirements, P2R and the "combined buffer requirements"). Under the EU Banking Reforms, the P2G is not relevant for the purposes of triggering the automatic restriction of the distribution and calculation of the Maximum Distributable Amount.

In February 2019, Kutxabank was informed by the ECB of the results of the Supervisory Review and Evaluation Process (SREP), which include the supervisory decision regarding capital requirements applicable to the Kutxabank Group from 1 March 2019 onwards. The details of these capital requirements are described below:

Category	CET1	Total capital
Pillar 1	4.50%	8.00%
Pillar 2 (P2R)	1.20%	1.20%
Conservation buffer	2.50%	2.50%
Other buffers	0.00%	0.00%
<b>TOTAL REQUIREMENTS</b>	<b>8.20%</b>	<b>11.70%</b>

The table below sets out the Group's capital position as of 30 June 2019, 31 December 2018, 2017 and 2016:

	30 June 2019*		31 December					
	Phased-in	Fully loaded	2018		2017		2016	
			Phased-in	Fully loaded	Phased-in	Fully loaded	Phased-in	Fully loaded
CET1 ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84
Tier 1 ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84
Total Capital ratio (%)	16.6	16.4	16.1	15.5	15.7	15.3	15.2	14.84

\* Including 50% of the profits during the six month period ended 30 June 2019

As at 30 June 2019, the RWAs of the Group amounted to EUR 30,163.62 million (EUR 29,794.84 as at 31 December 2018 and EUR 29,789.55 million as at 31 December 2017).

The above figures are the result of the positive evolution of the capital ratios of the Group from 2015 (when the CET1 ratio stood at 14.6% as at 31 December 2015).

As of 31 December 2018, the CET1 capital of the Group represented 8.4% of the Total Liabilities and Own Funds (and 8.5% as at 30 June 2019). The Group also has a solid capitalisation, with an asset density (i.e., the percentage of RWAs over Total Assets) of 51.6% as at 31 December 2018 (and 50.2% as at 30 June 2019).

Any failure by the Bank to comply with its regulatory capital requirements could result in the imposition of administrative actions or sanctions, such as further P2Rs or the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, which, together with Royal Decree 1012/2015 have implemented BRRD into Spanish law.

### Leverage ratio

In addition to the above, Article 429 of the CRR requires institutions to calculate their leverage ratio ("LR") in accordance with the methodology laid down in that article. The EU Banking Reforms contain a binding 3% Tier 1 LR requirement, that has been added to the own funds requirements in Article 92 of the CRR, and which institutions must meet in addition to their risk-based requirements. A new Article 141b of CRD IV Directive, included by the CRD V Directive, will restrict distributions in the form of dividends, variable

remuneration and payments to holders of AT1 instruments above the LR related maximum distributable amount in case of a failure to meet the LR.

The LR of the Group was 8.1% as at 30 June 2019 (8.1% as at 31 December 2018 and 8.07% as at 31 December 2017).

### **Eligible liabilities**

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. The MREL shall be calculated as the amount of own funds and eligible liabilities and expressed as a percentage of the leverage ratio or the total risk exposure amount of the institution. The level of capital and eligible liabilities required under MREL is set by the resolution authority for each bank (and/or group) based on the resolution plan and other criteria. The resolution authority for the Issuer is the Single Resolution Board (the "**SRB**"). Eligible liabilities may be senior or subordinated liabilities, 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 EU Banking Reforms further include, as part of MREL, a new subordination requirement of eligible instruments for G-SIIs and "top tier" banks involving a minimum "Pillar 1" subordination requirement and an institution specific "Pillar 2" subordination requirement. This "Pillar 1" subordination requirement shall be satisfied with own funds and other eligible MREL instruments (which MREL instruments may not for these purposes be senior debt instruments and only MREL instruments constituting "non-preferred" senior debt under the new insolvency hierarchy introduced into Spain will be eligible for compliance with the subordination requirement). Resolution authorities may also impose "Pillar 2" subordination requirements to institutions not constituting G-SIIs or "top tier" banks, which would be determined on a case-by-case basis but subject to a minimum level equal to the lower of 8% of a bank's total liabilities and own funds and 27% of its RWAs.

Kutxabank has received the formal communication from the Bank of Spain regarding its MREL requirement established by the SRB. According to that communication, the Group is required to reach by 1 July 2021 an amount of own funds and eligible liabilities of 10.51% of the own funds and total liabilities at consolidated level as of 31 December 2017, which is equal to 19.54% of its RWAs at the consolidated level as of that date (current shortfall is of approximately EUR 1.1 billion calculated as the difference between the 19.54% requirement and the Total Capital ratio, multiplied by RWAs). The requirement was aligned with the Bank's expectations and its financing plan.

According to the EU Banking Reforms, any failure by an institution to meet the applicable minimum MREL requirements will 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.

### **Liquidity requirements**

The Group should also comply with the liquidity coverage ratio ("**LCR**") requirements provided in CRR. The 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 designed to ensure that banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. Since 1 January 2018, the entities to which this standard applies (including the Group) must comply with 100% of the applicable LCR requirement. The LCR of the Group was 254.5% as at 30 June 2019 (222.1% on average during the 12-months period ended on 30 June 2019), 225.1% as at 31 December 2018 and 204.7% as at 31 December 2017.

The BCBS' 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. The EU Banking Reforms contain the implementation of the BCBS standard on NSFR introducing some adjustments. The NSFR ratio of the Group was 128.7% as at 30 June 2019 (126.4% on average during the 12-months period ended on 30 June 2019) and 127.9% as at 31 December 2018.

### **Loss absorbing powers by the Relevant Resolution Authority under Law 11/2015 and the SRM Regulation**

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 established pursuant to the SRM Regulation, as the case may be and according to Law 11/2015, 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 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 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 (including instruments such as the SNP Notes) and subordinated obligations.

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 items; (ii) the principal amount of Additional Tier 1 instruments; (iii) the principal amount of Tier 2 instruments; (iv) the principal amount of other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) the principal or outstanding amount of eligible liabilities (*pasivos admisibles*) (including the SNP Notes) in accordance with the hierarchy of claims set out in Law 22/2003, of 9 July, on Insolvency (the "**Insolvency Law**") (with "non-preferred" senior claims subject to the Spanish Bail-in Power after any subordinated claims against the Bank but before the senior claims against the Bank) (following the entry into force of BRRD II), Article 48 of BRRD now refers to "bail-inable liabilities", defined as the liabilities and capital instruments that do not qualify as CET1, Additional Tier 1 or Tier 2 instruments of an institution and that are not excluded from the scope of the bail-in tool). The order of this sequence is consistent with the hierarchy of claims in normal insolvency proceedings prescribed by the Insolvency Law read in conjunction with Additional Provision 14 of Law 11/2015.

In addition to the Spanish Bail-in Power, the BRRD II (pending implementation in Spain) and the SRM Regulation II, which shall apply from 28 December 2020, provide for the Relevant Resolution Authority to have the further power to permanently write down or convert into equity eligible liabilities, such as the Notes, at the point of non-viability ("**Non-Viability Loss Absorption**") of an institution or a group in combination with any exercise of any other Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met). The 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 and eligible liabilities 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 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).

## TAXATION

*The following is a general description of certain Spanish tax considerations relating to the SNP Notes. It does not purport to be a complete analysis of all tax considerations relating to the SNP Notes whether in those countries or elsewhere. Prospective purchasers of SNP Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of SNP Notes and receiving payments of interest, principal and/or other amounts under the SNP Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

*Also investors should note that the appointment by an investor in SNP Notes, or any person through which an investor holds SNP Notes, of a custodian, collection agent or similar person in relation to such SNP Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### Spanish tax considerations

The following summary describes the main Spanish tax implications arising in connection with the acquisition and holding of the SNP Notes by individuals or entities who are the beneficial owners of the SNP Notes. 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 SNP Notes are initially registered for clearance and settlement in Iberclear.

Prospective purchasers of the SNP Notes 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 SNP Notes.

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**") and Foral Decree of Bizkaia 205/2008, of 22 December ("**Foral Decree 205/2008**");
- (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 SNP Notes***

#### *Indirect taxation*

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

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

#### *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 SNP Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000; 21 per cent. for taxable income between €6,000.01 and €50,000 and 23 per cent. for taxable income in excess of €50,000.

Income from the transfer of the SNP Notes is computed as the difference between their transfer value and their acquisition or subscription value. Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income.

Negative income derived from the transfer of the SNP Notes, in the event that the investor had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, shall be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the SNP Notes 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 Kutxabank on interest payments as well as on income derived from the redemption or repayment of the SNP Notes, by individual investors subject to PIT.

However, income derived from the transfer of the SNP Notes should not be subject to withholding on account of PIT provided that the SNP Notes 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 SNP Notes 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 SNP Notes being transferred is exempt from withholding tax.

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

### **Reporting Obligations**

Kutxabank will comply with the reporting obligations set forth in the applicable tax laws (including any foral regulations) with respect to beneficial owners of the SNP Notes that are individuals resident in Spain for tax purposes.

### **Wealth Tax (Impuesto sobre el Patrimonio)**

According to Wealth Tax regulations (subject to any exceptions provided under relevant legislation in each autonomous region (*Comunidad Autónoma*), individuals with tax residency in Spain would be 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 SNP Notes 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.

In accordance with Article 3 of Royal Decree-Law 27/2018, of 28 December, a full exemption (*bonificación del 100%*) on Wealth Tax will apply as from the tax year 2020 unless such exemption is revoked.

### **Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)**

Individuals with tax residency in Spain who acquire ownership or other rights over any SNP Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or state 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 SNP Notes 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 SNP Notes, by Spanish CIT taxpayers provided that certain requirements are met (including that the Iberclear Members that have the SNP Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide Kutxabank, 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 SNP Notes, in accordance with Article 61.q of the CIT regulations, there is no obligation to withhold on income derived from the SNP Notes obtained by Spanish CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) provided that the SNP Notes are:

- (i) registered by way of book entries; and
- (ii) negotiated in a Spanish official secondary market, such as AIAF.

### **Reporting Obligations**

Kutxabank will comply with the reporting obligations set forth in the applicable tax laws (including any foral regulations) with respect to beneficial owners of the SNP Notes 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 SNP Notes 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 SNP Notes by inheritance, gift or legacy are not subject to the Inheritance and Gift Tax but generally must include the market value of the SNP Notes 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 SNP Notes through a permanent establishment in Spain

### **Non-resident Income Tax (Impuesto sobre la Renta de no Residentes)**

If the SNP Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such SNP Notes 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 SNP Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

### **Reporting Obligations**

Kutxabank will comply with the reporting obligations set forth under Spanish tax laws with respect to beneficial owners of the SNP Notes that are individuals or legal entities not resident in Spain for tax purposes and that act with respect to the SNP Notes through a permanent establishment in Spain.

- (ii) Investors that are not resident in Spain for tax purposes, not acting in respect of the SNP Notes through a permanent establishment in Spain

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

Both interest payments periodically received under the SNP Notes and income derived from the transfer, redemption or repayment of the SNP Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the SNP Notes, 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 SNP Notes carried out by Kutxabank, the Iberclear Members that have the SNP Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide Kutxabank, 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 Kutxabank in a timely manner in respect of a payment of interest under the SNP Notes, Kutxabank will withhold Spanish withholding tax at the applicable rate (currently 19 per cent.) on such payment of income on the SNP Notes and Kutxabank 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 Kutxabank, will receive a refund of the amount withheld, with no need for action on the beneficial owner's part, if Kutxabank 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 SNP Notes 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*)**

According to Wealth Tax regulations, 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 2019, 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.

However, non-Spanish resident individuals will be exempt from Wealth Tax in respect of the SNP Notes which income is exempt from NRIT as described above.

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.

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.

In accordance with Article 3 of Royal Decree-Law 27/2018, of 28 December, a full exemption (*bonificación del 100%*) on Wealth Tax will apply as from the tax year 2020 unless such exemption is revoked.

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 SNP Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the 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 regional and state rules.

Non-Spanish resident legal entities which acquire ownership or other rights over the SNP Notes by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to NRIT. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

#### *(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 Kutxabank in respect of the SNP Notes 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 SNP Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide Kutxabank, 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 and section 4 of Article 54 of Foral Decree 205/2008, as applicable, containing the following information:

- (i) Identification of the SNP Notes.
- (ii) Total amount of the income paid by Kutxabank.
- (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 Kutxabank in a timely manner in respect of a payment of income made by Kutxabank under the SNP Notes, 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 Kutxabank 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 Kutxabank 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 SNP Notes. Accordingly, Kutxabank 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 Kutxabank. Moreover, Kutxabank will not pay any additional amounts with respect to any such withholding tax.**

#### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the SNP Notes (including secondary' market transactions) in certain circumstances.

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

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

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

#### **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 SNP Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the SNP Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the SNP Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". Holders should consult their own tax advisors regarding how these rules may apply to their investment in the SNP Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the SNP Notes, no person will be required to pay additional amounts as a result of the 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 Kutxabank.

**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

Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank and Natixis (the "**Joint Lead Managers**") and Norbolsa, S.V., S.A. (the Co-Manager, and together with the Joint Lead Managers, the "**Managers**") have, in a subscription agreement dated 20 September 2019 (the "**Subscription Agreement**") and made between Kutxabank and the Managers, upon the terms and subject to the conditions contained therein, jointly and severally agreed to procure subscribers, or subscribe and pay for the SNP Notes on the Issue Date at their issue price of 99.4210 per cent. of their principal amount less a combined management and underwriting commission. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the SNP Notes.

Kutxabank will use all reasonable endeavours to procure that the SNP Notes are admitted to listing on AIAF and to maintain such admission until none of the SNP Notes is outstanding.

### **Selling Restrictions**

#### ***Prohibition of Sales to EEA Retail Investors***

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any SNP Notes to any retail investor in the European Economic Area. 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 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.

### **United Kingdom**

Each Manager has further represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services Market Act (**FSMA**)) received by it in connection with the issue or sale of the SNP Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the SNP Notes in, from or otherwise involving the United Kingdom.

### **United States of America**

The SNP Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The SNP Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the SNP Notes, (a) as part of their distribution at any time or

(b) otherwise, until 40 days after the later of the commencement of the offering and the Issue 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 SNP Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the SNP Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of SNP Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **Spain**

Each Manager has represented and agreed that the SNP Notes 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 Managers, offers of the SNP Notes 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 Article 58 of Royal Decree 217/2008, of 15 February, and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

### **General**

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers SNP Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the SNP Notes.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver SNP Notes or possess, distribute or publish this Prospectus or any other offering material relating to the SNP Notes, in all cases at their own expense.

## 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 SNP Notes of Kutxabank.

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 (the "**Reform**"). Following the 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 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.

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

The securities recording system of Iberclear is a two tier 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. BME Clearing is also owned by BME.

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 legitimization 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 SNP Notes**

#### ***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 fixed income securities, including corporate bonds (for example, medium term SNP Notes and mortgage bonds) and bonds issued by the Spanish Treasury and Spanish regions, among others, 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.

#### ***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 SNP Notes through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with participating entities in Iberclear.

## GENERAL INFORMATION

### Responsibility Statement

1. Kutxabank and the undersigned, Mr. Íñigo López Tapia, in his capacity as Capital Markets and Investors Relations Manager of Kutxabank, and acting under a special power of attorney granted by the Executive Committee of Kutxabank, accept responsibility for the information contained in this Prospectus and declare, to the best of their knowledge, that the information contained in this Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import.

### Authorisation

2. The creation and issue of the SNP Notes has been authorised by means of the resolutions adopted by (i) the general shareholders' meeting of the Issuer on 30 June 2016; (ii) the Board of Directors of the Issuer dated 5 September 2019, and (iii) the Executive Committee of the Issuer dated 5 September 2019.

### Legal and Arbitration Proceedings

3. 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 of the Issuer.

### Significant/Material Change

4. Since 31 December 2018 there has been no material adverse change in the prospects of the Issuer.

Since 30 June 2019 there has been no significant change in the financial performance or in the financial position of the Group.

### Auditors

5. The 2017 Consolidated Financial Statements and the 2018 Consolidated Financial Statements have been audited without qualification by Deloitte, S.L., independent auditors.

The 2019 Consolidated First Semester Interim Financial Statements have been subject to limited review by Deloitte, S.L., independent auditors.

Deloitte, S.L.'s office is at Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020 Madrid (Spain) and is registered with the Official Registry for Auditors (*Registro Oficial de Auditores de Cuentas (ROAC)*) under number S0692.

### Third party information

6. Information included in this Prospectus sourced from a third party has been accurately reproduced, and so far as Kutxabank 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.

### Approval of financial information

7. The 2017 Consolidated Financial Statements were approved by the General Shareholders' Meeting of Kutxabank held on 9 April 2018.

The 2018 Consolidated Financial Statements were approved by the General Shareholders' Meeting of Kutxabank held on 21 June 2019.

The 2019 Consolidated First Semester Interim Financial Statements were approved by the Board of Directors of Kutxabank on its meeting held on 5 September 2019.

#### **Documents on display**

8. Electronic copies of the bylaws (*Estatutos Sociales*) of Kutxabank may be inspected on Kutxabank's website.

#### **Material Contracts**

9. There are no material contracts that are not entered into in the ordinary course of the Issuer's business, which contain provisions under which Kutxabank or any member of the Kutxabank Group has an obligation or entitlement which is, or may be, material to the ability of Kutxabank to meet its obligations in respect of the SNP Notes.

#### **Yield**

10. On the basis of the issue price of the SNP Notes of 99.4210 per cent. of their principal amount, the annual yield of the SNP Notes is 0.618 per cent.

#### **Clearing: ISIN and Common Code**

11. The SNP Notes will be admitted to listing on AIAF and have been accepted for clearance through Iberclear. The SNP Notes bear the ISIN ES0343307015 and the Common Code 205455817.

#### **Listing**

12. This Prospectus has been approved by the CNMV in its capacity as competent authority under the Prospectus Regulation and the Spanish Securities Market Law. The CNMV has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation, and such approval should not be considered as an endorsement of the Issuer or the quality of the SNP Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the SNP Notes.

Application has been made for the SNP Notes to be admitted to trading on AIAF. The SNP Notes may also be admitted to trading on any other secondary market as may be agreed by Kutxabank.

#### **Paying agency**

13. All payments under the Conditions will be carried out directly by Kutxabank through Iberclear. The corporate address of Iberclear is Plaza de la Lealtad 1, 28014 Madrid, Spain.

#### **Ratings**

14. The SNP Notes are rated "Baa3" by Moody's, "BBB-" by S&P and "BBB+" by Fitch.

In accordance with Moody's ratings definitions, obligations rated "Baa" are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

In accordance with S&P's ratings definitions, an obligation rated "BBB-" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.

In accordance with Fitch's ratings definitions, a rating of "BBB" indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

### Stabilisation

15. In connection with the issue of the SNP Notes, Barclays Bank PLC (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) may over allot SNP Notes or effect transactions with a view to supporting the market price of the SNP Notes 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 SNP Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the SNP Notes and 60 days after the date of the allotment of the SNP Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) 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 SNP Notes

16. Save as discussed in "*Subscription and Sale*", so far as Kutxabank is aware, no person involved in the offer of the SNP Notes had an interest material to the offer.

### Other relationships

17. Certain 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, Kutxabank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the 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 Kutxabank or its affiliates. Certain Managers or their affiliates that have a lending relationship with Kutxabank routinely hedge their credit exposure to Kutxabank consistent with their customary risk management policies. Typically, such 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 SNP Notes issued under the Prospectus. Any such short positions could adversely affect future trading prices of SNP Notes issued under the Prospectus. The 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

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

Type of expense	Euro (estimated amount)
Charges and fees of AIAF and Iberclear .....	10,500
CNMV fees (listing) .....	50,000
<b>Total</b> .....	<b>60,500</b>

## **SIGNATURES**

In witness to their knowledge and approval of the contents of this Prospectus drawn up according to Annexes 7 and 15 of Delegated Regulation (EU) 2019/980 of 14 March 2019, it is hereby signed by Mr. Íñigo López Tapia, in his capacity as Capital Markets and Investors Relations Manager of Kutxabank, S.A., in San Sebastián (Spain), on 20 September 2019.



## REGISTERED OFFICE OF KUTXABANK

### KUTXABANK, S.A.

Gran Vía, 30  
Bilbao  
Spain

### JOINT LEAD MANAGERS

#### **Banco Bilbao Vizcaya Argentaria, S.A.**

Ciudad BBVA  
Calle Saucedo 28, Edificio Asia  
28050 Madrid  
Spain

#### **Banco Santander, S.A.**

Calle Juan Ignacio Luca de  
Tena 11  
Edificio la Magdalena  
Planta 1  
28027 Madrid  
Spain

#### **Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf, London E14  
4BB  
United Kingdom

#### **Crédit Agricole Corporate and Investment Bank**

12, Place des Etats-Unis  
CS 70052  
92547 Montrouge Cedex  
France

#### **Natixis**

47, quai d' Austerlitz  
75013 Paris  
France

### CO-MANAGER

#### **Norbolsa, S.V., S.A.**

Torre Iberdrola  
Plaza Euskadi, nº 5 – planta 26  
48009 Bilbao  
Spain

### LEGAL ADVISORS

*To Kutxabank as to Spanish law:*

#### **Clifford Chance, S.L.P.U.**

Paseo de la Castellana, 110  
28046 Madrid  
Spain

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

#### **Linklaters, S.L.P.**

Calle Almagro, 40  
28010 Madrid  
Spain

### INDEPENDENT AUDITORS TO KUTXABANK

#### **Deloitte, S.L.**

Plaza Pablo Ruiz Picasso, 1, Torre Picasso,  
28020 Madrid  
Spain