Offering Circular dated 12 September 2018

BANKIA, S.A.

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

Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities

Issue Price: 6.375 per cent.

The €500,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 liquidation preference each (the **Preferred Securities**) are being issued by Bankia, S.A. (the **Bank**, the **Issuer** or **Bankia**) on 19 September 2018 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Bankia Group** or the **Group**. The Issuer is itself a controlled company in a consolidated group of credit institutions, the controlling company of which is BFA Tenedora de Acciones S.A.U. (**BFA** and, together with the Bankia Group, the **BFA-Bankia Group**).

The Preferred Securities will accrue non-cumulative cash distributions (**Distributions**) as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 19 September 2023 (the **First Reset Date**), at the rate of 6.375 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Period**), at the rate per annum, calculated on an annual basis and then converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.224 per cent. per annum (the **Initial Margin**) and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Preferred Securities (the **Conditions**)) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrears on 19 December, 19 March, 19 June and 19 September, in each year (each a **Distribution Payment Date**). In respect of the period from (and including the Closing Date to (but excluding) 19 December 2018 (the **First Distribution Payment Date**), the Distribution payable in respect of each Preferred Security will be €3,187.50 per Liquidation Preference.

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time as further provided in Condition 4(c). Without prejudice to the right of the Bank to cancel the payments of any Distribution: (a) payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items (as defined in the Conditions) of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (b) if the Competent Authority (as defined in the Conditions) requires the Bank to cancel the relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (c) no payments will be made on the Preferred Securities if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations (as defined in the Conditions); and (d) if the Trigger Event (as defined in the Conditions) occurs at any time on or after the Closing Date (as defined in the Conditions), the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.

The Preferred Securities are perpetual. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, at the liquidation preference of €200,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the **Redemption Price**). The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions). Any redemption is subject to the prior consent of the Competent Authority and must be made otherwise in accordance with Applicable Banking Regulations (as defined in the Conditions) then in force.

In the event of the occurrence of the Trigger Event (as defined in the Conditions) (i.e. if at any time the CET1 ratio (as defined in the Conditions) of the Group and/or the Bank falls below 5.125 per cent.), the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank (Ordinary Shares) at the Conversion Price (as defined in the Conditions).

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, Holders will be entitled to receive (subject to the limitations described in the Conditions), in respect of each Preferred Security, their respective liquidation preference of €200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution (as defined in the Conditions).

The Preferred Securities will be issued in registered form and will be evidenced by a global Preferred Security, which will be registered in the name of a nominee for, and deposited on or about the Closing Date with, a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

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

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 7.

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

This Offering Circular does not comprise a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended. Application has been made to the Irish Stock Exchange Plc, now trading as Euronext Dublin (the **Irish Stock Exchange**) for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange.

The Preferred Securities must not be offered, distributed or sold in Spain or to Spanish Residents (as defined in the section headed "*Subscription and Sale*"). No publicity of any kind in relation to the Preferred Securities shall be made in Spain.

The Preferred Securities are not intended to be sold and should not be sold to retail clients (as defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/71/EU (**MiFID II**), as amended or replaced from time to time). Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page 3 of the Offering Circular for further information.

The Preferred Securities and any Ordinary Shares to be issued and delivered in the event of the occurrence of the Trigger Event have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**). The Preferred Securities are being offered outside the United States 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

Bankia **Barclays** **Crédit Agricole CIB**

Deutsche Bank **UBS Investment Bank**

IMPORTANT NOTICES

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

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

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or Bankia, S.A., Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch and UBS Limited (together, the **Joint Lead Managers**).

None of the Joint Lead Managers has separately verified the information contained or incorporated by reference in this Offering Circular. None of the Joint Lead Managers nor any of their respective affiliates has authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Preferred Security shall in any circumstances create any implication that there has been no change in the affairs of the Issuer, or any event reasonably likely to involve any adverse change in the condition (financial or otherwise) of the Issuer, since the date of this Offering Circular or that any other information supplied in connection with the Preferred Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

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

The Joint Lead Managers are acting exclusively for the Bank and no one else in connection with any offering of the Preferred Securities. The Joint Lead Managers will not regard any other person (whether a recipient of this Offering Circular or otherwise) as their client in relation to any such offering and will not be responsible to anyone other than the Bank for providing the protections afforded to their clients or for giving advice in relation to such offering or any transaction or arrangement referred to herein.

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

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

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

In this Offering Circular, unless otherwise specified, references to a **member state** are references to a Member State of the European Economic Area, references to **U.S.** are to United States dollars, references to **€**, **EUR** or **euro** are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

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

Potential investors are advised to exercise caution in relation to any offering of the Preferred Securities. If a potential investor is in any doubt about any of the contents of this Offering Circular, 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 Offering Circular or incorporated by reference herein. A potential investor should not invest in the Preferred Securities unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the Preferred Securities will perform under changing conditions, the resulting effects on the value of the Preferred Securities and the impact this investment will have on the potential investor's overall investment portfolio. See "*Risk Factors—The Preferred Securities may not be a suitable investment for all investors*".

Restrictions on marketing and sales to retail investors

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the **PI Rules**). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail insurance-based investment products (the **PRIIPs Regulation**) became directly applicable in all EEA member states; and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together, the PI Rules, the PRIIPs Regulation and MiFID II are referred to as the **Regulations**.

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

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Preferred Securities (or any beneficial interest therein) including the Regulations.

Each of the Bank and the Joint Lead Managers is required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Preferred Securities (or a beneficial interest in such Preferred Securities) from the Issuer and/or the Joint Lead Managers (acting as Joint Lead Managers), each prospective investor will be deemed to represent, warrant, agree with, and undertake to the Issuer and each of the Joint Lead Managers that:

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

(b) whether or not it is subject to the Regulations, it will not:

  (i) sell or offer the Preferred Securities (or the beneficial interest in such securities) to retail clients (as defined in MiFID II); or

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

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

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors - The Preferred Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), 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 the PRIIPs Regulation for offering or selling the Preferred Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

FINANCIAL INFORMATION

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

- Unless otherwise stated, any reference to loans refers to both loans and advances.
- Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received in the period in which they are due.
- Financial information with respect to subsidiaries may not reflect consolidation adjustments.
- Certain numerical information in this Offering Circular may not sum due to rounding adjustments. In addition, information regarding period-to-period changes is based on figures which have not been rounded; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

STABILISATION

In connection with the issue of the Preferred Securities, UBS Limited (the **Stabilisation Manager**) (or any person acting on behalf of the Stabilisation Manager) may, to the extent permitted by applicable laws and directives, over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities.

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RISK FACTORS

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

The Bank believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the non-payment by the Bank of any distributions, liquidation preferences or other amounts on or in connection with the Preferred Securities may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Preferred Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined in section headed Conditions of the Preferred Securities below or elsewhere in this Offering Circular have the same meanings in this section.

Macroeconomic risks

Unfavourable global economic conditions and, in particular, unfavourable economic conditions in Spain, or any deterioration in the Spanish or general European financial systems, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Bank and its Group

Global economic conditions deteriorated significantly between 2008 and 2012 and Spain fell into recession from which it is still recovering.

During this financial crisis, financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced significant difficulties. Numerous financial institutions around the world had to seek additional capital, including government bail outs and many lenders and institutional investors had reduced or ceased funding of certain borrowers, including financial institutions. Financial institutions of certain European countries, including Greece and Cyprus, had also experienced significant deposit outflows and financial systems worldwide had challenging credit conditions, including limited liquidity, extreme volatility and general widening of spreads. The crisis in worldwide financial and credit markets resulted in a global economic slowdown.

Since 2014 the Spanish economy has started to show signs of recovery, including positive account balances. According to the National Statistical Institute, Spain's gross domestic product (GDP) grew by 1.4 per cent. in 2014, 3.4 per cent. in 2015, 3.3 per cent. in 2016 and 3.1 per cent. in 2017. There has also been a significant reduction in risk premiums in Europe since the second half of 2012. According to Eurostat, economic growth for the EU has been positive since the second quarter of 2013, growing by 2.5 per cent. in 2017.

Further deterioration of European economy or economies of the European countries remains a risk and any such deterioration could adversely affect the cost and availability of funding of Spanish and European banks, including Bankia and the Group, and the quality of the Group's loan portfolio, and require the Group to create reserves on its exposure to the sovereign debt of one or more countries in the EEA or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

Other factors or events, such as the exit of countries from the EEA, a sharp economic slowdown in China, a negative market reaction to interest rate increases by the United States Federal Reserve System, heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside the Group's control, may also affect Spanish, European and global economic conditions, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's business is highly dependent on the Spanish economy

Bankia is a Spanish financial institution with offices throughout Spain, predominantly in Madrid and the Valencian Community. As Bankia's commercial activity is primarily carried out in Spain, its business, financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Spain.

After a period of rapid economic growth, Spain's GDP contracted in 2009-2013. The effects of the financial crisis were particularly pronounced in Spain given its need for foreign financing reflecting its high current account deficit, which in turn results from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (with GDP growth of 3.1 per cent. in 2017) and the public deficit is diminishing, real or perceived difficulties in servicing public or private debt could increase Spain's financing costs. In addition, unemployment levels remain high and a change in the current recovery of the labour market would adversely affect household's gross disposable income of the Group's retail customers and may adversely affect recoveries of the Group's retail loans and increase loan losses.

The International Monetary Fund (**IMF**) has projected a GDP growth for the Spanish economy of 2.8 per cent. in 2018. The Bank of Spain's most recent forecast is in line with the IMF, projecting a 2.7 per cent. growth forecast in 2018, and a 2.3 per cent. growth in 2019. The risks surrounding the GDP growth projections for the Spanish economy are mainly on the external front: (i) given the Spanish economy's high level of debt and its substantial foreign financing needs, the possible start of an upward cycle in interest rates could have a negative impact on some agents' income and the strength of their balance sheets; (ii) the tendency to introduce protectionist barriers has also recently gained strength in some developed economies and could have an adverse effect on global trade, which could be particularly detrimental to economies such as Spain's, whose recovery has relied heavily on export growth and which is still in the process of correcting its external imbalance; and (iii) much uncertainty remains about the possible implications of the UK's exit from the EU, in a context in which the duration and outcome of the bilateral negotiations are as yet unknown.

Additionally, on the domestic front, Spain recently experienced an unexpected change in Government as the former Spanish prime minister was forced to resign after failing to secure a confidence vote from the Spanish parliament. In this respect, there is uncertainty in relation to the new central Government’s agenda as well as its capacity to obtain enough support to design appropriate measures to completely recover the Spanish economy.

The former Spanish Government, formed in November 2016 following a lengthy caretaker period, approved and implemented, in collaboration with various economic agents, a series of structural reforms to promote the recovery of the country's economy, prominently including the adoption of budget austerity policies, aimed at reducing the fiscal deficit, the reform of employment laws, measures to reform the financial system and the announced privatisation of public sector companies. The possible consequence of a failure to meet the objectives of such structural reforms and non-fulfilment of the projections announced to the market by the former Government of Spain and other institutions for the coming years could curb private expectations and consumption, and trigger a further loss of confidence in the Spanish economy by international financial operators. This could result in an adverse impact on companies that conduct a large part of their business in Spain and thus on the Group's business, financial position and operating results.

In addition, political tensions in Catalonia have increased recently due to the so-called "independence movement", which has given rise to an atmosphere of uncertainty. There can be no assurances that continued political instability in Catalonia will not have a material adverse effect on both the Catalan and the Spanish economy.

The risk of economic tensions in Spain and the EU generally could have a material adverse effect on the Group's business, financial condition and results of operations

Conditions in the capital markets and the economy generally in the European Union (the **EU**) continue to show signs of fragility and volatility. Although the Group operates primarily in Spain, the evolution of the situation in the EU could have a material adverse effect on the Group's business, financial condition and results of operations, given its impact on liquidity and conditions of financing.

On 23 June 2016, the UK held a non-binding referendum on its membership in the EU, in which a majority voted for the UK to leave the EU. Immediately following the result, the UK and global stock and foreign exchange markets commenced a period of significant volatility, including a steep depreciation of the pound sterling, in addition to which there is now prevailing uncertainty relating to the process, timing and negotiation of the UK's exit from, and future relationship with, the EU.

On 29 March 2017, the UK's Prime Minister notified the UK's intention to withdraw from the EU under Article 50(2) of the Treaty of the European Union. The notice triggered a two-year period of negotiation to determine the new terms of the UK's relationship with the EU, after which period its EU membership will cease. These negotiations are expected to run in parallel to standalone bilateral negotiations with the numerous individual countries and multilateral counterparties with which the UK currently has trading arrangements by virtue of its membership of the EU. The timing of, and process for, such negotiations and the resulting terms of the UK's future economic, trading and legal relationships are uncertain.

While the longer term effects of the UK's exit from the EU are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the UK, continental Europe and the global economy, at least in the short to medium term.

The UK electorate's decision to exit from the EU caused significant volatility in the global stock and foreign exchange markets. It has also encouraged anti-EU and populist political parties in other member states, raising the potential for other countries to seek to conduct referenda with respect to their continuing membership of the EU. The increase in the political influence of Eurosceptic political parties in these countries, or the perception that any of these political parties could occur, have had and may continue to have a material adverse on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets.

In the past, the European Central Bank (**ECB**) and the European Council have taken actions with the aim of reducing the risk of contagion in the EU and beyond and improving economic and financial stability. Notwithstanding these measures, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by the EU and other nations, which may be under financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be adversely affected, with wider possible adverse consequences for global financial market conditions. Gross direct exposure to sovereign debt stood at €27,412 million or 13.2 per cent. of total balance of the Group at 30 June 2018, of which the main exposures in Europe were to Spain, Italy and France, with €21,466 million, €5,200 million and €745 million, respectively.

The Group has direct and indirect exposure to financial and economic conditions of the EU economies. Concerns relating to sovereign defaults or a partial or complete break-up of the European Monetary Union, including potential accompanying redenomination risks and uncertainties, have significantly increased in light of the political and economic factors mentioned above. A deterioration of the economic and financial environment could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels, which in turn could materially and adversely affect the Group's operating results, financial position and prospects.

Legal, regulatory and compliance risks

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

The financial services industry is among the most highly regulated industries in the world. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and other institutions have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crisis. The Group's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations in Spain and the other markets in which it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector (that is expected to continue for the foreseeable future) and a changing regulatory framework which is likely to undergo further significant change. This creates significant uncertainty for the Group and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

The Group is subject to the supervision and/or regulation of the Bank of Spain (*Banco de España*), the ECB, the Spanish Securities Exchange Commission (*Comisión Nacional del Mercado de Valores*) (the **CNMV**) and the Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*), which are the main regulators of the operations of the Group. The operations of the Group outside Spain are subject to direct oversight by the local regulators in those jurisdictions. In addition, many of the operations of the Group are dependent upon licenses issued by financial authorities.

In addition, the new institutional structure in Europe for supervision, with the creation of the single supervisory mechanism (**SSM**), and for resolution, with the new single resolution mechanism (**SRM**), could lead to changes in the near future. As a result, the Group may be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability.

The regulations which most significantly affect the Group include, among others, regulations relating to capital requirements or provisions, as described below. In addition, the Group is subject to substantial regulation relating to other matters such as liquidity. The Group cannot predict if increased liquidity standards, if implemented, could require the Group to maintain a greater proportion of its assets in highly liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. The Group is also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still on-going. In addition, since some of these laws and regulations have been 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, results of operations and cash flows. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been steadily increasing during recent years. Regulation may be imposed on an *ad hoc* basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as Bankia. Additionally, the Group is also subject to other regulations, such as those related to anti-money laundering, anti-terrorism, privacy protection and transparency and fairness in customer relations.

Any required changes to the Group's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue for the Group, limit the Group's ability to pursue business opportunities in which the Group might otherwise consider engaging, affect the value of assets that the Bank 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. For example, the Group is subject to substantial regulation relating to liquidity. Future liquidity standards could require the Group to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the regulators of the Group, as part of their supervisory function, periodically review the Group's allowance for loan losses. Such regulators may require the Group to: (i) increase such allowances to recognise further losses; (ii) increase the regulatory risk-weighting of assets; (iii) increase its "combined buffer requirement"; or (iv) increase "Pillar 2" requirements (as defined below). Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the management of the Group, could have an adverse effect on its earnings and financial condition, including on the Issuer's Common Equity Tier 1 ratio and on its ability to pay distributions.

In particular, the Group's equity and results may be adversely affected by the changes to the classification and measurement of financial assets arising from IFRS-EU 9 *Financial Instruments*, which require the development of an impairment methodology for calculating the expected credit losses on the Issuer's financial assets and commitments to extend credit. The IFRS-EU 9 is effective and applicable for the preparation of the financial statements issued after 1 January 2018.

On 27 December 2017, Regulation (EU) 2017/2395 amending Regulation (EU) No. 575/2013, of 26 June, of the European Parliament and of the Council on prudencial requirements for credit institutions and investment firms (**CRR**) as regards transitional arrangements for mitigating the impact of the introduction of IFRS-EU 9 on own funds was published with the aim of mitigating the impact on capital and leverage ratios of the impairment requirements resulting

from IFRS-EU 9. However, the Bank has decided not to adopt this option and is already applying its full effect on the Group's CET1 (as defined below) capital.

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the Group's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation and the Group may face higher compliance costs. For example, Basel III implementation differs across jurisdictions in terms of timing and the applicable rules, and this lack of uniformity in implemented rules may lead to an uneven playing field and to competition distortions, which in turn could materially and adversely affect the Group's operating results, financial position and prospects.

Increasing capital requirements constitute one of the Bank's main regulatory challenges

Increasing capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels. As a Spanish financial institution, the Bank is subject to Directive 2013/36/EU, of 26 June, of the European Parliament on access to credit institution and investment firms (the **CRD IV Directive**) that replaced Directives 2006/48 and 2006/49 through which the EU began implementing Basel III capital reforms with effect from 1 January 2014, with certain requirements being phased in until 1 January 2019. The core regulation regarding the solvency of credit entities is the **CRR** (together with the CRD IV Directive and any implementing measures, the **CRD IV**), which is complemented by binding regulatory technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The CRD IV Directive has been largely implemented in Spain 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 (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) (**RDL 14/2013**), Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervision y solvencia de entidades de crédito*) (**Law 10/2014**), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 (*Real Decreto 84/2015, de 13 de febrero, por el que se desarrolla la Ley 10/2014*) (**RD 84/2015**), Bank of Spain Circular 2/2014 of 31 January (*Circular 2/2014, de 31 de enero, del Banco de España*) and Bank of Spain Circular 2/2016 of 2 February (*Circular 2/2016, de 2 de febrero, del Banco de España*). Law 10/2014 continued the implementation of the CRD IV Directive (implementing in Spain certain provisions relating to buffer requirements and restrictions on distributions), and also restated in a single body of law the main regulations on ordinance and supervision of credit entities.

Under CRD IV, Bankia is required, on a standalone and consolidated basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets (**RWA**) of which at least 4.5 per cent. must be CET1 (as defined below) and at least 6 per cent. must be Tier 1 capital (together, the minimum "Pillar 1" capital requirements). In addition to the minimum "Pillar 1" capital requirements, since 1 January 2016 credit institutions must comply with the "combined buffer requirement". The "combined buffer requirement" has introduced five new capital buffers to be satisfied with additional common equity tier 1 (**CET1**): (1) the capital conservation buffer, of up to 2.5 per cent. of RWA; (2) the global systemically important institutions (**G-SIB**) buffer, of between 1 per cent. and 3.5 per cent. of RWA; (3) the institution-specific counter-cyclical capital buffer, which may be as much as 2.5 per cent. of RWA (or higher pursuant to the requirements set by the competent authority); (4) the other systemically important institutions (**D-SIB**) buffer, which may be as much as 2 per cent. of RWA; and (5) the systemic risk buffer to prevent systemic or macro prudential risks of at least 1 per cent. of RWA (to be set by the Bank of Spain).

While the capital conservation buffer and the G-SIB buffer are mandatory, the Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the D-SIB buffer and the systemic risks buffer (to prevent systemic or macro prudential risks). With the entry into force of the SSM on 4 November 2014, the ECB also has the ability to provide certain recommendations in this respect.

Bankia has not been classified as G-SIB by the Financial Stability Board (**FSB**) nor by the Bank of Spain so, unless otherwise indicated by the FSB or by the Bank of Spain in the future, it will not be required to maintain the G-SIB buffer. According to the press release published by the Bank of Spain on 24 November 2017, Bankia is considered a D-SIB for 2018 and, accordingly, during 2018 it will be required to maintain a phased in D-SIB buffer of 0.1875 per cent. and in 2019 a full D-SIB buffer of 0.25 per cent. In addition, the Bank of Spain agreed on 7 June 2018 to maintain the

countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the third quarter of 2018 (percentages will be revised each quarter).

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

Moreover, Article 104 of CRD IV Directive, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No. 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the **SSM Regulation**), also contemplate that in addition to the minimum "Pillar 1" capital requirements and any applicable capital buffer, supervisory authorities may require further "Pillar 2" capital to cover other risks, including those not considered to be fully captured by the minimum "own funds" "Pillar 1" capital requirements under CRD IV, or to address macro-prudential considerations. This may result in the imposition of additional capital requirements on Bankia and/or the Group pursuant to this "Pillar 2" framework. Any failure by Bankia and/or the Group to maintain its "Pillar 1" minimum regulatory capital ratios and any "Pillar 2" additional capital could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group's results of operations.

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Bank and the Group within the SSM. The ECB is required under the SSM Regulation to carry out, at least on an annual basis, a supervisory review and evaluation process (the **SREP**) assessments under the CRD IV of the additional "Pillar 2" capital that may be imposed for each of the European credit institutions subject to the SSM and accordingly requirements may change from year to year. Any additional capital requirement that may be imposed on the Bank and/or the Group by the ECB pursuant to these assessments may require the Bank and/or the Group to hold capital levels similar to, or higher than, those required under the full application of the CRD IV. There can be no assurance that the Group will be able to continue to maintain such capital ratios.

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

Accordingly, any additional "Pillar 2" capital that may be imposed on Bankia and/or the Group by the ECB pursuant to the SREP will require Bankia and/or the Group to hold capital levels above the minimum "Pillar 1" capital requirements and the "combined buffer requirement".

As communicated by the EBA on 1 July 2016, SREP decisions of 2016 differentiate between a "Pillar 2" requirement (**P2R**) and a "Pillar 2" guidance (**P2G**). Banks are expected to meet the P2G, which is set above the level of binding capital (minimum and additional) requirements and on top of the "combined buffer requirements". If a bank does not meet its P2G, this will not result in automatic action of the supervisor and will not be used to determine the Maximum Distributable Amount (as defined below) trigger, but will be used in fine-tuned measures based on the individual situation of the relevant bank. In order to assess the final measures taken, the SSM will assess every case of a bank not meeting its P2G.

Moreover, in July 2016, the ECB also published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming the distinction between P2R and P2G and clarifying that even though the ECB expects banks to meet P2G at all times, a failure to meet P2G is not expected to trigger the automatic calculation of the Maximum Distributable Amount.

However, on 31 October 2017, the EBA launched a public consultation to review, among others, the EBA 2014 Guidelines with the aim of further enhancing institution's risk management and supervisory convergence in the SREP. The public consultation finished on 31 January 2018 and the revised guidelines are expected to be implemented by 1 January 2019.

In connection with this, Bankia announced on 13 December 2017 the ECB decision regarding its prudential minimum capital phased-in requirements for 2018, following the results of SREP. The ECB decision requires Bankia to maintain a CET1 phased-in capital ratio of 8.563 per cent. and a total capital phased in ratio of 12.063 per cent., both on a

consolidated basis. This CET1 capital ratio of 8.563 per cent. includes: (i) the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.); (ii) the additional own funds requirement under "Pillar 2" (2.0 per cent.); and (iii) the capital conservation buffer (1.875 per cent.) and the other systemically important institutions buffer (0.1875 per cent.). The total capital ratio of 12.063 per cent. includes (i) the minimum total capital ratio required under "Pillar 1" (8 per cent.); (ii) the additional own funds requirement under "Pillar 2" (2.0 per cent.); and (iii) the capital conservation buffer (1.875 per cent.) and the other systemically important institutions buffer (0.1875 per cent.).

As of 30 June 2018, the Group's CET1 and total capital phased-in ratio were 14.01 per cent. and 17.18 per cent., respectively, on a consolidated basis. Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements ("Pillar 1" plus "P2R" plus "combined buffer requirement") imposed on Bankia and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional capital on Bankia and/or the Group.

Any failure by Bankia and/or the Group to maintain its minimum "Pillar 1" capital requirements, any "P2R" additional capital and/or any "combined buffer requirement" could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the "P2R" framework or any other capital requirements to which Bankia and/or the Group is or becomes subject (including the "combined buffer requirement") may result in the imposition of restrictions or prohibitions on "discretionary payments" by Bankia as discussed below and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

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

As 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 calculation is limited to the amount not used to meet the "Pillar 1" and "P2R" own funds requirements of the institution.

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

Any failure by Bankia and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further P2R and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de Recuperación y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión*) (**Law 11/2015**), which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio*) (**RD 1012/2015**), has implemented Directive 2014/59/EU of 15 May establishing a framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**) into Spanish law, which could have a material adverse effect on the Group's business and operations.

In addition to the above, the CRR also includes a requirement for credit institutions to calculate a leverage ratio, report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their leverage ratio in accordance with the methodology laid down in that article. At its

meeting on 12 January 2014, the oversight body of the Basel Committee on Banking Supervision (**BCBS**) endorsed the definition of the leverage ratio set forth in the CRD IV. On 11 January 2016, the BCBS issued a press release informing the public about the agreement reached by its oversight body, the Group of Governors and Heads of Supervision (**GHOS**) setting an indicative benchmark consisting of 3 per cent. of leverage exposures, which must be met with Tier 1 capital. The CRR does not currently contain a requirement for institutions to have a capital requirement based on the leverage ratio though the European Commission's Proposals (as defined below) amending the CRR contain a binding 3 per cent. Tier 1 capital leverage ratio requirement that could be raised after calibration. The full implementation of the leverage ratio is currently under consultation as part of the Proposals.

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

In addition to the minimum capital requirements under CRD IV, the BRRD regime prescribes that banks meet, at all times, a minimum requirement for own funds and eligible liabilities (known as **MREL**). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions). The MREL requirement came into force on 1 January 2016 but no formal requirements have been communicated yet by the resolution authority and therefore, the quantum, the requirements to qualify as eligible liabilities and the compliance calendar remain an open question. On 20 December 2017, the Single Resolution Board (SRB), which is the central decision-making body of the SRM, published its second policy statement on MREL, which will serve as a basis for setting binding MREL targets.

For its part, on 9 November 2015 the FSB published its final Total Loss-Absorbing Capacity (**TLAC**) Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. In this regard, on 6 June 2018 the FSB published a call for public feedback on the technical implementation of the TLAC Principles and Term Sheet.

The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of RWA as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage exposures as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Although the Bank has not been classified as a G-SIB by the FSB, it cannot be disregarded that TLAC requirements may apply to the Bank and/or the Group in addition to other capital requirements either because TLAC requirements are adopted and implemented in Spain and extended to non-G-SIBs through the imposition of similar MREL requirements as set out below or otherwise (and as per the BRRD, any legislative proposal from the European Commission will have to take into account the need for consistency between MREL and other international standards such as TLAC).

On 23 November 2016, the European Commission published, among others, a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No. 806/2014 which was passed on 15 July 2014 and became effective from 1 January 2015 (the **SRM Regulation**). The aforementioned proposals will be referred to as the **Proposals**. The Proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities, changes to the definitions of Tier 2 and Additional Tier 1 Instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above.

In order to progress with the implementation of the Proposals, on 25 May 2018 the European Council agreed its stance on the package of measures regarding banking regulation and confirmed that a compromise was agreed between ministers on a number of issues, including:

(i) the necessary level and quality of the subordination of liabilities in the event of G-SIBs, or other banks that could pose a systemic risk to financial stability, having to be resolved;

(ii) the implementation of new market risk capital requirements;

(iii) an adjusted methodology for calculation of the G-SIB's "score"; and

(iv) a binding leverage ratio and net stable funding ratio

This compromise enables the Council Presidency to commence negotiations with the European Parliament on the Proposals in the second half of 2018, following which the rules may be implemented. The Proposals are to be considered by the European Parliament and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until the Proposals are in final form and are finally implemented into the relevant legislation, it is uncertain how the Proposals will affect the Issuer or the Holders.

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

In addition, the Proposals establish some exemptions which could allow outstanding senior debt instruments to be used to comply with MREL. However, there is uncertainty regarding the final form of the Proposals insofar as such eligibility is concerned and how those regulations and exemptions are to be interpreted and applied. This uncertainty may impact the ability of the Bank to comply with its MREL (at both individual and consolidated levels) by the relevant deadline. In this regard, the EBA submitted on 14 December 2016 its final report on the implementation and design of the MREL framework, which contains a number of recommendations to amend the current MREL framework.

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

The European Commission's Proposals require the introduction of some adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for G-SIBs. In particular, technical amendments to the existing rules on MREL are needed to align them with the TLAC standard regarding inter alia the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer requirements, disclosure of risks to investors, and their application in relation to different resolution strategies. Implementation of the TLAC/MREL Requirements is expected to be the greater of (a) 16 per cent. of RWA as from 1 January 2019 and 18 per cent. of RWA as from 1 January 2022 and (b) 6 per cent. of the Basel III leverage exposures as from 1 January 2019, and 6.75 per cent. of the Basel III leverage exposures as from 1 January 2022.

On 7 December 2017, the GHOS published a 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 reform: (i) introduces a revised standard method for credit risk, which is intended to improve the soundness and sensitivity to risk of the current method; (ii) introduces modifications to the IRB methods for credit risk, including input floors to ensure a minimum level of conservatism in model parameters and limitations of its use for portfolios with low levels of noncompliance; (iii) removes any internally modelled methods afnd introduces a standardised and basic method of calculating the CVA risk; (iv) revises the standard method of calculating operational risks, which will be replaced with advanced measurement approaches; (v) introduces a leverage ratio buffer for G-SIBs; and (vi) establishes

a minimum limit on the aggregate results (output floor), which prevents bank risk-weighted assets (**RWA**) generated by internal models from being lower than the 72.5 per cent. of the RWA calculated in accordance with the Basel III framework.

The GHOS have extended the implementation of the revised minimum capital requirements in respect of market risk until January 2022, to align this change with the implementation of the reviews of credit, operational and CVA risks.

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

Overall, there can be no assurance that the implementation of the above new capital requirements, standards and recommendations will not adversely affect the Bank's ability to make discretionary payments as set out above or require the Bank to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

Deferred Tax Assets

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

This new deduction introduced by CRD IV has a significant impact on Spanish banks due to the particularly restrictive nature of certain aspects of Spanish tax law. For example, in some EU countries when a bank reports a loss, the tax authorities refund a portion of taxes paid in previous years, but in Spain the bank must earn profits in subsequent years in order for this set-off to take place. Additionally, Spanish tax law does not recognise as tax-deductible certain amounts recorded as costs in the accounts of a bank, unlike the tax legislation of other EU countries.

Due to these differences and the impact of the requirements of CRD IV on DTAs, the Spanish regulator implemented certain amendments to former Law on Corporate Income Tax, approved by Royal Legislative Decree 4/2004, of 5 March 2004 by virtue of RDL 14/2013, which also provided for a transitional regime for DTAs generated before 1 January 2014. These amendments enabled certain DTAs to be treated as a direct claim against the Spanish tax authorities if a Spanish credit institution was unable to reverse the relevant differences and provided that the financial institution was on a liquidation or insolvency scenario or incurred in accounting losses. Additionally, the transitional regime provided for a period in which a percentage of the applicable DTAs could be deducted. This transitional regime was included in the new Law 27/2014, of 27 November, on Corporate Income Tax (**CIT Law**).

However, the European Commission initiated a preliminary state aid investigation in relation to the Spanish DTAs regime. Such investigation is now resolved to the extent that the European Commission, the Bank of Spain and the Spanish Ministries of Treasury and Economy agreed a commitment to amend the applicable law in order to reinforce the compatibility of the regime with European Law. In general terms, the amendment passed requires payment of a special tax charge in order for the conversion of the DTAs into a current asset to be enforceable. This special tax charge was registered for an amount of €76 million in the epigraph "Tax expense or income related to profit or loss from continuing operations" of Bankia's consolidated income statement as at 31 December 2017.

Finally, there could be a risk that the CIT Law will be modified in the future and any changes to the DTAs regime could have a material adverse effect on its business, financial condition, operation results and its estimates.

The Royal Decree-Law 3/2016 of 2 December 2016 has implemented a number of amendments to the CIT Law, in force for tax periods beginning on 1 January 2016. The main amendments introduced therein are the following:

(i) Limitation on the use of the DTAs treated as a direct claim and carried forward tax losses up to 25 per cent. (provided a certain amount of net operating income);

(ii) New limit on the use of the double taxation deduction up to 50 per cent. of the tax liability (*cuota íntegra*), in case the net operating income exceeds €20 million;

(iii) The impairment of the value of stakes held which were considered deductible for tax purposes in tax periods prior to 1 January 2013 should have to be recaptured on the following five tax periods at least on a proportionate basis; and

(iv) As from tax periods beginning in the year 2017, losses generated upon the transfer of shares, provided they comply with the relevant requirements to apply the Spanish participation exemption on capital gains, will not be considered as deductible for tax purposes.

Regulatory developments related to the EU banking and fiscal union may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union. While support for a banking union in Europe is strong and significant progress has been made in terms of the development of a single-rule book through the CRD IV Directive, there is on-going debate on the extent and pace of integration. On 15 October 2013, the Council Regulation (EU) 1024/2013 conferred specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions which resulted in the creation of the SSM, so that 128 of the largest EU banks (including the Issuer) came under the ECB direct oversight from November 2014.

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

The SSM (comprised by both the ECB and the national competent authorities) is intended to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the largest European banks (including the Bank), on 4 November 2014.

The SSM represents a significant change in the approach to bank supervision at a European and global level. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. The SSM is one of the largest supervisors in the world in terms of assets under supervision. In the coming years, the SSM is expected to work on the establishment of a new supervisory culture importing the best practices from the supervisory authorities that form part of the SSM. Several steps have already been taken in this regard such as the publication of the Supervisory Guidelines and the approval of Regulation (EU) No. 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and the national competent authorities and with national designated authorities, Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions available in EU legislation and a set of guidelines on the application of CRR's national options and discretions. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The second pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund (the **Single Resolution Fund**). Under the intergovernmental agreement (**IGA**) signed by 26 EU Member States on 21 May 2014, contributions by banks raised at national level were transferred to the Single Resolution Fund. The SRB, which is the central decision-making body of the SRM, started operating on 1 January 2015 and fully assumed its resolution powers on 1 January 2016. The Single Resolution Fund has also been in place since 1 January 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the EU. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

By allowing for the consistent application of EU banking rules through the SSM and the SRM, the banking union is expected to help resume momentum towards economic and monetary union. In order to complete such union, a single deposit guarantee scheme is still needed which may require a change to the existing European treaties. This is the

subject of continued negotiation by European leaders to ensure further progress is made in European fiscal, economic and political integration.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority, in particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes (implemented into Spanish law through Law 11/2015 and RD 1012/2015) may have a material effect on the Bank's business, financial condition and results of operations. Additionally, on 24 November 2015, the European Commission proposed a draft regulation to amend Regulation (EU) 806/2014, in order to establish a European deposit insurance scheme for bank deposits (the **EDIS**). On 11 October 2017, the European Commission updated its proposal regarding the EDIS. The EDIS is the third pillar of the EU banking union.

There can be no assurance that regulatory developments related to the EU fiscal and banking union, and initiatives undertaken at EU level, will not have a material adverse effect on the Bank's business, financial condition and results of operations, as these regulatory developments may require the Group to invest significant management attention and resources to make any necessary changes.

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

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

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 (**MiFIR**) and MiFID II), introduces a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. Although MiFID II entered into force on 3 January 2018, it has only been partially transposed to Spanish legislation by means of Royal Decree Law 21/2017, of 29 December, on urgent measures to adapt Spanish law to the European Union legislation on capital markets, and there is still uncertainty as to how these new obligations and requirements will be implemented. Should these obligations and requirements be burdensome or impose obligations additional to those applicable to the Group's European competitors, this will have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

Effective management of the Group's capital position is important to its ability to operate its business and to pursue its business strategy. In response to the 2008 financial crisis, a number of changes to the regulatory capital framework affecting the Group have been adopted or are being considered. For example, the CRD IV imposes new capital requirements on the Issuer. See "*—Regulatory developments related to the EU banking and fiscal union may have a material adverse effect on the Bank's business financial condition, results of operations and prospects*" and "*—Recent legislation designed to strengthen the Spanish financial sector and regulate the activities of European banks generally may have a material adverse effect on the Bank's business financial condition, results of operations and prospects*".

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

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

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

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

As at the date of this Offering Circular, certain lawsuits and proceedings are on-going against the Group arising from the ordinary course of its operations (see "*Description of the Issuer and its Group—Litigation*"). To cover the risk of these proceedings, along with other legal, regulatory and tax risks, as at 30 June 2018, the Group's balance of provisions amounted to €269 million.

IPO litigation

In particular, the referred section provides information about certain criminal and civil procedures taken against Bankia regarding the sale of shares in the context of its initial public offering (**IPO**) in July 2011. With regard to the civil procedures, on 27 January 2016 Bankia was notified by the Spanish Supreme Court of two judgments in favour of retail investors who had subscribed for Bankia's shares in the context of its IPO. On 17 February 2016, Bankia announced the settlement of claims of retail investors using the referred provision, in exchange for the return of their shares to the Issuer. Additionally, claims against Bankia have also been brought by institutional investors (in this connection, see "*Description of the Issuer and its Group—Litigation—IPO Litigation*").

The total amount of the BFA-Bankia Group's provision for contingencies and actual liabilities related to Bankia's IPO was established at €11 million based on information available as at 30 June 2018. The assumptions used to estimate this provision are reviewed, updated and validated regularly. Due to their inherent uncertainty the key assumptions that can have a material impact on this provision include the number of claims to be received and expectations regarding the outcome and profile of the claimants.

Claims related to the Restructuring Plan and the Hybrid Instruments

The BFA-Bankia Group's businesses, financial situation, and operating results may be compromised as a consequence of claims that may arise in relation to the fulfilment of commitments assumed under the former restructuring plan of the BFA-Bankia Group, that was approved by the Bank of Spain and the European Commission on 27 and 28 November 2012 and completed in December 2017 (the **Restructuring Plan**).

In addition, the Restructuring Plan provided for the actions for the management of hybrid instruments (preferred securities and subordinated debt) originally issued by the Saving Banks (*Cajas de Ahorros*) or their financing vehicles, which have been implemented within the context of the principles and objectives related to the sharing of the restructuring costs of the financial institutions established in Law 9/2012 of 14 November on restructuring and resolution of credit institutions (**Law 9/2012**). In May 2013, as part of the Restructuring Plan, the process of exchange of hybrid instruments of the BFA-Bankia Group was completed. The amount of capital actually generated by the hybrid management actions was, as forecasted, €6.7 billion at the BFA-Bankia Group level, of which €4.9 billion was new capital in Bankia.

As at the date of this Offering Circular, the BFA-Bankia Group is subject to claims in several courts from a number of investors in hybrid instruments seeking declarations of nullity in respect of terms alleged to be abusive, including the terms related to its long-term maturity or perpetual nature, the issuer's right to call for redemption, and the linkage of payments under the instruments to profitability. As at 30 June 2018, the total estimated risk exposure in relation to such claims is €102 million having already paid BFA as court deposit of €24 million.

BFA and Bankia have agreed between themselves that Bankia's liability in respect of the claims which are the subject of court proceedings should be limited to a maximum amount of €246 million and that BFA will compensate Bankia if it suffers any liability in respect of the hybrid instruments in excess of this figure (in this connection, see "*Description of the Issuer and its Group—Litigation—Claims Related to Hybrid Instruments*"). Based on the claims made and in consideration of the agreement with BFA limiting Bankia's liability in relation to such claims, as well as the agreement of the steering committee of the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria or FROB*) a Spanish governmental entity formed to restructure banks and reinforce the equity of credit entities (the **FROB**), Bankia had established a provision regarding its contingent liability in respect of the claims of investors in

hybrid instruments of €246 million (of which €230 million was provisioned in 2013 and the remaining €16 million in 2014), which had been used in full during 2015. The total amount of the BFA-Bankia Group's provision for contingencies and actual liabilities related to hybrid instruments was established at €145 million based on information available as at 30 June 2018.

It is possible that other investors may join in the current proceedings and/or commence further proceedings themselves in respect of the same or similar claims. Such events may adversely affect the BFA-Bankia Group's business, financial condition and results of operations and in turn the business, financial condition and results of operations of the Group.

Claims related to floor clauses and fees-related clauses

Bankia may also be exposed to the risk deriving from elimination of interest rate floor clauses. Interest rate floor clauses are those by virtue of which the borrower accepts a minimum interest rate to be paid to the lender regardless of the applicable reference interest rate. In 2013 the Supreme Court of Spain ruled that interest rate floor clauses of certain Spanish banks were null and void because the clauses were not clearly and transparently explained. The Supreme Court of Spain had reasoned that its 2013 ruling could not be retroactive, but the European Court of Justice (**ECJ**) overruled that decision in December 2016. The ECJ ruled that Spanish consumers who had concluded a mortgage loan contract before the date of the 2013 judgment also had the right to obtain repayment in full of the amounts overpaid to the banks.

Bankia has included interest rate floor clauses in certain loan transactions with customers. On 3 February 2017, Bankia set up a procedure allowing customers with a mortgage that includes an interest rate floor clause to apply for a review of the floor clause and a refund of the amounts charged to them under that clause. To cover this contingency, Bankia set aside provisions up to the amount of the probable loss that could arise from the reimbursement of the amounts unduly charged in application of the clauses ruled invalid. As at 31 July 2018, the total estimated risk exposure in this connection is €44 million, mainly related to mortgages granted by Banco Mare Nostrum. S.A. (**BMN**).

Additionally, on 23 December 2015 the Supreme Court of Spain ruled that mortgage clauses that envisaged that a borrower shall pay all fees related to taking out the mortgage were null and void. Nullity declared by the Supreme Court was based on the lack of detail in the loan agreement, with regards to expenses, commissions and taxes, that should have been detailed in the loan documentation other than imposed in a generic manner. Individuals' claims have been brought against the Group before various courts related to these clauses, some of which have been upheld. However, on 15 March 2018 the Supreme Court of Spain ruled that the payment of taxes on the creation of mortgages (*Impuesto de Transmisiones Patrimoniales y Actos Jurídicos Documentados*) has to borne by the borrower, which is expected to reduce the risk derived from claims made on this basis. As of the date of this Offering Circular the Group has not recorded any extraordinary provision in connection with these claims.

Impact of financial transaction taxes and Spanish levy on deposits

On 14 February 2013, the European Commission published its proposal for a Council Directive (the **Commission's Proposal**) implementing enhanced cooperation in the area of a financial transaction tax (the **FTT**) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the **Participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, impose a tax at generally not less than 0.1 per cent., generally determined by reference to the amount of consideration paid, on certain dealings in the Preferred Securities (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt. The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Preferred Securities would be subject to higher costs, and the liquidity of the market for the Preferred Securities may be diminished.

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

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw. The holders of the Preferred Securities are advised to seek their own professional advice in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of the Preferred Securities.

Additionally, new legislation was passed in Spain in March 2013 imposing extraordinary levies on deposits, on which the current tax rate is 0.03 per cent. Furthermore, different Autonomous Regions have further approved different taxes on bank deposits that are currently under consideration by the Spanish courts.

There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Issuer operates. Any such additional levies and taxes could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Group's anti-money laundering and anti-terrorism policies may be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing

Group companies are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems.

The Group has developed policies and procedures to comply with applicable rules and regulations but it cannot guarantee that such policies and procedures will not be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations.

The Group is subject to data protection laws

The Group is subject to certain regulations, including privacy laws, and contractual obligations regarding the flow of information including price sensitive information. The privacy and data protection laws to which the Group is subject have been amended to impose greater obligations on data controllers. On 27 April 2016, the Regulation (EU) 2017/679 of the European Parliament and of the Council of April 27, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the **General Data Protection Regulation**) was issued. Such Regulation would be applicable from 25 May 2018 and directly enforceable in Spain. The General Data Protection Regulation replaces EU Data Protection Directive 95/46/EC and imposes a substantially higher compliance burden on the Group. The new regulation provides for harsh penalties for non-compliance, imposing fines of up to €10 million or, in the case of an undertaking, of up to 2 per cent. of the total worldwide annual turnover of the preceding financial year, whichever is higher. For certain serious infringements, the regulation contemplates fines of up to €20 million or, in the case of an undertaking, of up to 4 per cent. of the total worldwide annual turnover of the preceding financial year, whichever is higher. Failure to comply with such or future data protection laws could result in reputational damage and sanctions and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Specific risks affecting the Group's business

The Group's acquisitions and the integration of acquired businesses may expose it to risk

Mergers and acquisitions may divert management's time and focus from operating the Group's business. Acquisitions also may require the Group to spend a substantial portion of its available cash, incur debt or other liabilities, amortise expenses related to intangible assets or incur write-offs of goodwill or other assets.

On 15 March 2017 the FROB announced and communicated to Bankia that its Governing Committee agreed that a merger between Bankia and BMN was the best strategy to optimise the recovery of public funds through a future divestment process, meaning that both institutions should initiate the corresponding actions, as appropriate. In light of such communication, the merger between Bankia and BMN was approved by the two companies' Shareholders' General Meetings on 14 September 2017 and effectively completed in January 2018.

The analysis and assessment of the risks inherent in the merger with BMN were made under the assumption of the accuracy and truthfulness of the public information and the rest of information provided by BMN. It cannot be ruled out that the information provided by BMN to the market and to the Group contains errors or omissions and Bankia cannot guarantee that such information was accurate and complete. As a result, some of the estimations on the basis on which the decision of the merger with BMN was made may be inaccurate, incorrect or out-dated.

Upon completion of acquisitions such as the merger with BMN, the Group's ability to benefit from any such acquisitions will depend in part on its successful integration of those businesses. However, completed and future acquisitions may result in unforeseen operational difficulties and expenditures associated with:

- incorporating new businesses and technologies into the Group's infrastructure;
- consolidating operational and administrative functions;
- coordinating outreach to the Group's community;
- maintaining morale and culture and retaining and integrating key employees;
- maintaining or developing controls, procedures and policies (including effective internal control over financial reporting and disclosure controls and procedures); and
- assuming liabilities related to the activities of the acquired business before the acquisition, including liabilities for violations of laws and regulations, commercial disputes, taxes and other matters.

Moreover, the Group may not benefit from its acquisitions as it expects, or in the time frame it expects. The Group also may issue additional equity securities in connection with an acquisition, which could cause dilution to its shareholders. Finally, acquisitions could be viewed negatively by analysts, investors or the Group's members.

In particular, as a result of the integration process of BMN, the Group is a party to various agreements for the distribution of insurance products with different insurance providers, some of which contained exclusivity clauses. The Group's management is currently evaluating how best to restructure its agreements with insurance providers and, as a result, the Group may need to terminate or amend some of these agreements. Consequently, the Group may incur and pay significant penalties as a result of the termination or amendment of such agreements, which could materially and adversely affect our business, results of operations and financial condition.

Indirect control by the FROB and possible conflict of interest

On 27 June 2012, the FROB became the sole shareholder of BFA following a request by the Board of Directors of BFA to convert the convertible preferred participating securities subscribed for by the FROB on 28 December 2010 into shares of BFA. Consequently, the FROB is the indirect holder (through BFA) of a 61.29 per cent. interest in Bankia's share capital as of the date of this Offering Circular. The interests of the FROB, as a government entity, may not coincide with those of Bankia and its minority shareholders.

Change of control upon exit by the FROB

In accordance with Law 9/2012, fulfilment of the Restructuring Plan will ultimately result in a change in control as the FROB will transfer or otherwise sell its ownership interest in BFA upon the satisfaction of certain milestones established in the Restructuring Plan. This change in control could cause a change in the Group's business strategy and in the structure and membership of the Issuer's Board of Directors. Although the impact that these measures could have is currently uncertain, they could negatively affect the Group's business, financial condition and results of operations.

Corrections to the valuation or change in the tax treatment of the asset transferred to SAREB

On 31 December 2012, pursuant to its restructuring plan, the BFA-Bankia Group transferred assets (comprising real estate loans and foreclosed real estate assets) with a gross value of €57.4 billion (of which €36.6 billion were assets of the Bankia Group and €11 billion were assets of BMN) to *Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.* (**SAREB**) in exchange for securities issued by the latter and backed by the Spanish state, thereby reducing the Group's risk exposure to the real estate market. As at 30 June 2018, the Group held €20.0 billion of SAREB bonds, which are being used to fund its business activities through both public and private sources of liquidity. The Group can give no assurance that it will be able to continue using these SAREB bonds as a source of

funding at current levels and, in such circumstances, its business, financial position and results of operations could be adversely affected.

On 17 June 2013 and 14 January 2016, BFA and Bankia adjusted the initial estimate of the transfer value of the assets to the exact configuration of the assets at the effective transfer date. The total amount of Bankia's assets subject to correction amounted to €139.5 million, and the total amount of BFA's assets subject to correction amounted to €8.1 million, which resulted in Bankia and BFA returning to SAREB an equivalent amount of bonds issued by SAREB as consideration for the original asset transfer. Although the statutory period for SAREB to adjust the transfer price has expired, there is no guarantee that BFA-Bankia Group will not be required to reimburse a part of the consideration it received for the transfer of the asset as a result of potential challenges in the future. Any corrections to the valuation or change in the tax treatment of the asset transfer applied initially could give rise to additional contingencies or tax implications. The occurrence of any of these events could adversely affect the BFA-Bankia Group's businesses, financial position and results of operations.

Credit and Liquidity Risks

The Group's business is significantly affected by credit and counterparty risk

The Group is exposed to the creditworthiness of its customers and counterparties. 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.

Despite the risk control measures the Group has in place, a default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Although the Group regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions that the Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, collateral and security provided to the Group may be insufficient to cover the exposure or others' obligations to the Group.

Adverse changes in the credit quality of the Bank's borrowers and counterparties could affect the recoverability and value of the Bank's assets and require an increase in provisions for bad and doubtful debts and other provisions.

Market turmoil and economic weakness, especially in Spain, could have a material adverse effect on the liquidity, business and financial conditions of the Group's clients, which could in turn impair its loan portfolio. Although the Group caters to a range of different customers, one of the business segments on which it focuses is SMEs in Spain (representing 13.3 per cent. of the Group's total credit portfolio as of 30 June 2018). SMEs are particularly sensitive to adverse developments in the economy, rendering the Group's lending activities relatively riskier than if it lent primarily to higher-income customers.

In addition, if economic growth weakens, the unemployment rate increases or interest rates increase sharply, the creditworthiness of the Group's customers may deteriorate.

A weakening in customer and counterparties creditworthiness could impact the Group's capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its RWA, in accordance with the CRD IV Directive and the CRR. The RWA consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria and are driven, among other things, by the risk profile of its assets, which include its lending portfolio. A decline in the creditworthiness of a customer or a counterparty may result in an increase of the Group's RWA, which potentially could deteriorate the Group's capital adequacy ratios and limit its lending or investments in other operations.

Additionally, the Group's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Group's fee and commission income and, consequently, the revenues of its portfolio management, private banking and asset custody business.

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

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

The Group's main source of liquidity and funding is its customer deposit base, as well as on-going access to wholesale lending markets, including senior unsecured and subordinated bonds, interbank deposits, mortgage and public sector covered bonds and short-term commercial paper. In recent years, however, the prevalence of historically low interest rates has resulted in customers favouring alternative financial products with greater profitability potential over savings accounts or certificates of deposit. Since the Group relies on short-term securities and current accounts for a material portion of its funding (accounting for 51.7 per cent. of the Group's liabilities as of 31 December 2017), it cannot provide any assurance that, in the event that its depositors (as of 31 December 2017 and 2016, total deposits represented 63.6 per cent. and 60.0 per cent. of the Group's total funding, respectively) withdraw their funds at a rate faster than the rate at which borrowers repay their loans or in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which the Group operates or a loss of confidence (including as a result of political or social tensions in the regions where it operates or political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds), the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the 2008 financial crisis are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleveraging measures, which could result in an adverse effect on the Group's liquidity, business, financial condition, results of operations and prospects.

Although the Group places significant emphasis on liquidity risk management and focus on maintaining a buffer in liquid assets, the Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be adequate to mitigate liquidity risk.

Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities

The liquidity coverage ratio (**LCR**) is a quantitative liquidity standard developed by the BCBS to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and since January 2015 has been progressively phased-in. Since 1 January 2018, the banks to which this standard applies (including the Bank) must comply with 100 per cent. of the applicable LCR requirement. Bankia's LCR was 155.3 per cent. as of 30 June 2018.

The BCBS's net stable funding ratio (**NSFR**) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure.

On 23 November 2016, the European Commission published a number of proposals, including a proposal to amend CRR. This proposal envisages implementation of a BCBS standard to NSFR. If European authorities so decide, the NSFR shall apply from two years after the date of the entry into force of the proposed texts.

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

Bankia makes use of ECB refinancing facilities and other public facilities

Although Bankia has no structural reliance on ECB funding and, therefore, the ECB does not fund Bankia’s ordinary course of business, Bankia has taken advantage of the financing provided by the ECB through its December 2011 and February 2012 Long Term Refinancing Operations (**LTRO**), which offered financial institutions three-year loans at a discount, as well as the Targeted Long Term Refinancing Operations held on 17 December 2014 (**TLTRO I**).

The second series of the Targeted Loan Terms Refinancing Operations was announced on 10 March 2016 and it consists of four targeted longer-term refinancing operations, each with a maturity of four years, starting in June 2016 (**TLTRO II**). Borrowing conditions in the TLTRO II can be as low as the interest rate on the deposit facility.

As of 30 June 2018, ECB funding amounted to €13,856 million, all under the TLTRO II programme, representing 7.1 per cent. of Bankia's total liabilities. The ECB has established criteria to determine which assets are eligible collateral and Bankia is thus exposed to the risk that the ECB changes its criteria and the assets Bankia holds become ineligible for use as collateral under the new criteria, that the valuation rules are changed or that the costs of using the refinancing facilities increase. If the value of Bankia's eligible assets decline, then the amount of funding it can obtain from the ECB or other central banks will be correspondingly reduced, which could have a material adverse effect on Bankia's liquidity. If these facilities and similar expansionary economic policies were to be withdrawn or ceased, there could be no assurance that Bankia would be able to continue to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets, potentially at significant discounts to book value, to meet its obligations, with a corresponding negative impact on capital.

In the last TLTRO II windows in June 2016 and March 2017, the Bank was allocated funding amounting to €13,316 million maturing in 2020 and €540 million maturing in 2021, respectively. There can be no assurance that Bankia will be able to refinance this indebtedness on commercially reasonable terms, or at all, and any failure to achieve its refinancing strategy would have a material adverse effect on Bankia's business, financial condition, results of operations and prospects.

Additionally, it is not possible to predict the terms, volumes and availability of these liquidity support operations. This would result in the need for banks to seek alternative sources of borrowing, without ruling out the difficulties of obtaining such alternative funding as well as the risk that the related costs could be higher, which could have a material adverse effect on the Group's business, financial condition and results of operations.

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

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Rating agencies regularly evaluate the Group and their ratings of its long-term debt are based on a number of factors, including the Group's financial strength as well as conditions affecting the financial services industry generally.

Credit ratings are subject to the evaluation of the financial strength of a company in accordance with the methodology applied by rating agencies. In addition, the Issuer's rating is affected by the sovereign rating of Spain, which is the maximum level achievable by the Issuer. The BRRD has become an overriding factor in rating agencies' support-driven ratings and senior creditors are no longer guaranteed to have sovereign support for full repayment.

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

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

The Group is exposed to sovereign debt risk

As of 30 June 2018, the exposure of the Bankia Group to sovereign debt (excluding SAREB bonds) amounted to €27.4 billion, including €14.7 billion of "financial assets designated at fair value through equity" and €12.7 billion of "financial assets measured at amortised cost", with Spain accounting for 78.3 per cent. of this exposure. A change in the weighting of sovereign debt might affect the capital of the Issuer.

Any decline in Spain's credit ratings could adversely affect the value of Spain's, Spanish autonomous communities' and other Spanish issuers' respective securities held by the Group in its various portfolios and could also adversely impact the extent to which the Group can use the Spanish Government bonds it holds as collateral for ECB refinancing and, indirectly, for refinancing with other securities. Likewise, any permanent reduction in the value of Spanish Government

bonds would be reflected in the Group's capital position and would adversely affect its ability to access liquidity, raise capital and meet minimum regulatory capital requirements. As such, a downgrade or series of downgrades in the sovereign rating of Spain and any resulting reduction in the value of Spanish government bonds may have a material adverse effect on the Group's business, capital position, financial condition, results of operations and prospects. Furthermore, any downgrades of Spain's ratings may increase the risk of a downgrade of the Group's credit ratings by the rating agencies.

Besides Spain, the main countries to which the Group has investment securities exposure are Italy and France, with investments of €5,200 million and €745 million, respectively, as of 30 June 2018.

The Group's economic hedging may not prevent losses

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

Business and industry risks

The cyclical nature of the real estate industry may adversely affect the Group's operations

The Group is exposed to market fluctuations in the price of real estate in various ways. Mortgage lending to the private sector amounted to approximately €72.9 billion, representing 57.4 per cent. of the Group's total gross loans at 30 June 2018. The Group has also lending exposure to the property development and construction sector amounting to approximately €1.4 billion and representing 1.1 per cent. of the Group's total gross loans as at 30 June 2018.

Specific coverage for non-performing loans (**NPLs**) and watchlist loans, which are loans that are closely monitored in order to prevent debt repayments irregularities, for mortgage lending to the private sector amounted to approximately €1.8 billion (or 2.4 per cent. of mortgage lending to the private sector) as at 30 June 2018. Also, specific coverage (NPLs and watchlist loans) for the property development and construction sector amounted to approximately €0.5 billion, representing 37.6 per cent. of the Group's lending to the property development and construction sector as at 30 June 2018. Any defaults by borrowers on their loans could have a material adverse effect on the Group's business, financial condition and results of operations.

Trends as high unemployment rates coupled with declines in the real estate prices, could have a material adverse impact on the Group's mortgage payment delinquency rates, which in turn could have a material adverse effect on its business, financial condition and results of operations. Declines in property prices also decrease the value of the real estate collateral securing the Group's mortgage loans and adversely affects the credit quality of property developers to whom the Group has lent. Additionally, certain loans with mortgage collateral are considered eligible to guarantee the issue of long-term mortgage-backed securities and the Group's financing capacity would be diminished.

Furthermore, under certain circumstances, the Group takes title to the real estate assets securing a mortgage loan, either in connection with the surrender of the assets in settlement of the debt or the purchase of the assets or pursuant to legal proceedings to repossess the assets. Therefore, failure of the real estate market to recover or declining real estate prices could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Additionally, on 31 December 2012, pursuant to its restructuring plan, the BFA-Bankia Group transferred assets (real estate loans and foreclosed real estate assets) with a gross value of €46.4 billion to SAREB (as defined below), €36.6 billion of which were assets of the Bankia Group, in exchange for securities issued by SAREB and backed by the Spanish state, thereby reducing the Group's risk exposure to the real estate market. A downturn in the Spanish real estate market may limit the capacity of the SAREB entity to carry out further bond amortisations in the future.

Operational risks are inherent in the Group's business

The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from

external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented. Inadequate management of the Group's operational risk, including the risks arising from the Group's integration and from the Restructuring Plan, could have an adverse effect on the Group's business, operating results and financial position.

In addition, in some of its business areas, the Group rely on the services of third party contractors and suppliers. As of the date of this Offering Circular, these outsourced services include, for instance, the management of foreclosed assets. If the Group is unable to hire qualified and reliable third party contractors and suppliers, their failure could cause delays and subject the Group to significant additional costs. The selection process to which the Group subject prospective contractors and suppliers could be proven inadequate.

The Group is exposed to risks faced by other financial institutions

The Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. These liquidity concerns have had, and may continue to have, an unsettling effect on inter-institutional financial transactions in general. Many of the routine transactions the Group enters into may expose it to significant credit risk in the event of default by one of the Group's significant counterparties. Despite the risk control measures the Group has in place, a default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

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

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

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

The markets in which the Group operates are highly competitive. The Spanish banking sector has experienced a phase of particularly fierce competition, as a result of: (i) the implementation of directives intended to liberalise the EU's banking sector; (ii) the deregulation of the banking sector throughout the EU, especially in Spain, which has encouraged competition in traditional banking services, resulting in a gradual reduction in the spread between interest income and interest expense; (iii) the focus of the Spanish banking sector upon fee revenues, which means greater competition in asset management, corporate banking and investment banking; (iv) changes to certain Spanish tax and banking laws; and (v) the development of services with a large technological component, such as internet, phone and mobile banking. In particular, financial sector reforms in the markets in which the Group operates have increased competition among both local and foreign financial institutions. There has also been significant consolidation in the Spanish banking industry which has created larger and stronger banks with which the Group must now compete. This trend is expected to continue as the Bank of Spain continues to impose measures aimed at restructuring the Spanish financial sector, including requirements that smaller, non-viable regional banks consolidate into larger, more solvent and competitive entities and reducing overcapacity.

The Group also faces competition from non-bank financial institutions and other entities, such as leasing companies, mutual funds, pension funds and insurance companies and, to a lesser extent, department stores (for some consumer finance products) and car dealers. In addition, the Group faces competition from shadow banking entities that operate outside the regulated banking system. Furthermore, "crowdfunding" and other social media developments in finance are

expected to become more popular as technology further continues to connect society. The Group cannot be certain that this competition will not adversely affect its competitive position.

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

Market risks associated with fluctuations in bond and equity prices and other market factors are inherent in the Group's business. Protracted market declines can reduce liquidity in the markets, making it harder to sell assets and leading to material losses

The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. In some of the Group's business, protracted adverse market movements, particularly asset price decline, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if the Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the Group for which there are less liquid markets than others. Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that the Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group does not anticipate. The volatility of world equity markets due to recent economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations could become a permanent impairment that would be subject to write-offs against the Group's results, which may have a material adverse effect on the Group's business, financial condition and results of operations.

Significant changes or volatility in interest rates may negatively affect the Group's net interest income

The Group's results of operations are substantially dependent upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income contributed 73 per cent. of the Group's gross income (excluding gains from a sale of financial assets) in the years ended 31 December 2017 and 2016, respectively.

Interest rates are highly sensitive to many factors beyond its control, including deregulation of the financial sectors in the markets in which it operates, monetary policies pursued by the European Union and national governments, domestic and international economic and political conditions, the resources of the Group's competitors, consumer confidence, and other factors. As approximately 83 per cent. of the Group's loan portfolio as of 31 December 2017 consisted of variable interest rate loans, its business is sensitive to volatility in interest rates.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the factors outlined above, or otherwise, could reduce the Group's net interest margin. Any reduction in the Group's net interest margin could have a material adverse effect on the Group's net interest income, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Rising interest rates may increase the Group's NPL portfolio

Rising interest rates may lead to an increase in the Issuer's bad and doubtful debts portfolio if borrowers cannot refinance in a higher interest rate environment. This would result in an increase in defaults on the Issuer's loans to customers if borrowers are unable to meet their increased interest expense obligations, a reduction in the demand for loans, and the Issuer's ability to generate loans.

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

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

Bankia's success hinges on certain executives and skilled personnel

The success of Bankia's strategic plan will depend partly on the work of certain key persons in the organisation. The capacity to attract, train, motivate and retain qualified professionals is a key factor in the Bank's strategy. Success in implementing Bankia's strategy depends on the availability of qualified senior managers, both in central headquarters and in each business unit. If Bankia does not have the right people to sustain its activity, or if it loses any of its key executives and is unable to replace them as and when required, its business, financial position and operating results could be adversely affected by, among other things, a weakening of internal controls and an increase in operational risk. Similarly, if Bankia is unable to attract, train, motivate and retain qualified professionals, its business could be adversely affected. The legal and regulatory restrictions placed on banks that are undergoing restructuring may aggravate this risk.

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

The Group believes its success depends in part on its well-established and widely recognised brand along with its favourable reputation. Harm to the Group's reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behaviour, the failure to adequately address or the perceived failure to adequately address, conflicts of interest, actions by the financial services industry generally or by certain members, actions of strategic alliance partners, including the misconduct or fraudulent actions of such partners and the activities of customers and counterparties.

If the Group is not able to maintain and enhance its brand, its ability to grow may be impaired and the Group's business and operating results may be harmed.

The Group is highly dependent on information technology systems, which may fail, may not be adequate to the tasks at hand or may no longer be available and the Group is increasingly exposed to cyber security threats

Banks and their activities are highly dependent on sophisticated information technology (**IT**) systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital IT centres and computer viruses. IT systems need regular upgrading and the Group may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect the Group's operations from cyber-attacks could result in the loss of customer data or other sensitive information. A major disruption of the Group's IT systems, whether under the scenarios outlined above or under other scenarios, could have a material adverse effect on the normal operation of its business and thus on its financial condition, results of operations and prospects.

Risks related to the Preferred Securities

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

The Preferred Securities are complex financial instruments that involve a high degree of risk. Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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

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

(iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Conversion of the Preferred Securities into Ordinary Shares, and is familiar with the behaviour of financial markets; and

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

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

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

The BRRD (which has been implemented in Spain through Law 11/2015 and RD 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. The BRRD further provides that any extraordinary public financial support through additional financial stabilization tools is only to be used by a Member State as a last resort, after having assessed and applied the resolutions tools set out below to the maximum extent possible while maintaining financial stability.

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

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the FROB, the SRB or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) 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 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 convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims and subordinated obligations (including capital instruments such as the Preferred Securities).

The **Spanish Bail-in Power** is any write-down, conversion, transfer, modification or suspension power existing from time to time under, and exercised in compliance, with any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to: (i) Law 11/2015, as amended from time to time; (ii) RD 1012/2015, as amended from time to time; (iii) the SRM Regulation, as amended from time to time; and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which, among other things, 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, the sequence of any resulting write-down or conversion shall be as follows (i) CET1 instruments; (ii) additional tier 1 instruments (which for so long as the obligations of the Bank in respect of the Preferred Securities constitute Additional Tier 1 Instruments, shall include the Preferred Securities); (iii) tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; (v) "non-preferred" senior liabilities ; and (vi) the remaining eligible liabilities. The order of this sequence is consistent with the hierarchy of claims in normal insolvency proceedings prescribed by Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de julio, Concursal*) (the **Insolvency Law**) read in conjunction with Additional Provision 14.3º of Law 11/2015.

In addition to the Spanish Bail-in Power, the BRRD, Law 11/2015 and the SRM Regulation also provides for the Relevant Resolution Authority to permanenty write down or convert into equity capital instruments, securities such as the Preferred Securities, at the point of non-viability (**Non-Viability Loss Absorption** and, together with the Spanish Bail-in Power, the **Loss Absorbing Power**) of an institution or a group. The point of non-viability of an institution is the point at which the Relevant Resolution Authority determines that the institution and/or its group meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or converted into equity or extraordinary public support is provided and without such support the Relevant Resolution Authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Resolution Authority in accordance with Article 38.3 of Law 11/2015. Non-Viability Loss Absorption may be imposed prior to or in combination with any exercise of any other Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

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

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

The powers set out in the BRRD as implemented through Law 11/2015, RD 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 of the Preferred Securities may be subject to, among other things, on any application of the Spanish Bail-in-Power a write-down (including to zero), in which case there may be no conversion of the Preferred Securities into Ordinary Shares, or conversion into equity or other securities or obligations of amounts due under the Preferred Securities under terms different or less advantageous for the holders of the Preferred Securities as the conversion described in the Conditions and additionally may be subject to any Non-Viability Loss Absorption which may have similar adverse effects to the rights of the Holders under the Preferred Securities. The exercise of any such powers may result in such holders of the Preferred Securities losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected. For example, the Spanish Bail-in Power may be exercised

in such a manner as to result in holders of the Preferred Securities receiving a different security, which may be worth significantly less than the Preferred Securities.

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

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

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

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

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

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

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

CRD IV imposes a series of requirements, many of which will be phased in over a number of years. Although the CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator. In particular, the measurement of RWAs may change over time as a result of further international review and any implementation of the Basel Committee on Banking Supervision's

December 2017 "*Basel III: Finalising post-crisis reforms*" proposals. Any such change may have an adverse effect on the CET1 ratio.

Any changes in laws and regulations (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio or the CET1 Capital of the Group or the Bank or the RWA of the Group or the Bank. Furthermore, because the occurrence of the Trigger Event and restrictions on Distributions where subject to a Maximum Distributable Amount depends, in part, on the calculation of these ratio and capital measures, any change in Spanish laws or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

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

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

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

The Preferred Securities are irrevocably and mandatorily convertible into newly issued Ordinary Shares in certain prescribed circumstances

Upon the occurrence of the Trigger Event (if at any time the CET1 ratio (as defined in the Conditions) is less than 5.125 per cent.), the Bank will not make any further Distribution including accrued and unpaid Distributions which shall be cancelled by the Bank and the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of holders of the Preferred Securities) converted (which calculation is made by the Bank and shall be binding on the holders of the Preferred Securities) into newly issued Ordinary Shares. Because the Trigger Event will occur when the Bank's or the Group's CET1 ratio will have deteriorated significantly from the Group's CET1 ratio on the Closing Date, the resulting Trigger Event will likely be accompanied by a prior deterioration in the market price of the Ordinary Shares, which may be expected to continue after announcement of such Trigger Event.

Therefore, in the event of the occurrence of the Trigger Event, the Current Market Price (as defined in the Conditions) of an Ordinary Share may be below the Floor Price, and holders of the Preferred Securities could receive Ordinary Shares at a time when the market price of the Ordinary Shares is considerably less than the Conversion Price. In addition, there may be a delay in a holder of Preferred Securities receiving its Ordinary Shares following the Trigger Event, during which time the market price of the Ordinary Shares may fall further. As a result, the value of the Ordinary Shares received on conversion following the Trigger Event could be substantially lower than the price paid for the Preferred Securities at the time of their purchase.

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Ordinary Shares in the event of a Trigger Event occurring. See also "*—Holders of the Preferred Securities will bear the risk of fluctuations in the price of the Ordinary Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event*".

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

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside the Group's control. For example, the occurrence of one or more of the risks described under "*Macroeconomic Risks*, *Legal, regulatory and compliance Risks, Specific risks affecting the Group's business, Business and industry risks affecting the Group and Risks related to early intervention, restructuring and resolution*", or the deterioration of the

circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the Group's business and its future earnings; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible changes in regulatory capital definitions and calculations of the CET1 ratio and its components or the interpretation thereof by the relevant authorities, including CET1 Capital and RWAs, in each case on an individual or a consolidated basis, and the unwinding of transitional provisions under CRD IV); changes in the Group's structure or organisation and the Group's ability to manage actively its RWAs. The CET1 ratio of the Bank or the Group at any time may also depend on decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position. The Bank will have no obligation to consider the interests of the Holders in connection with the strategic decisions of the Group, including in respect of capital management. Holders of the Preferred Securities will not have any claim against the Bank or any other member of the Group in relation to any such decision. In addition, since the Competent Authority may require the Bank and the Group to calculate the CET1 ratio at any time, a Trigger Event could occur at any time.

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

Holders of the Preferred Securities will bear the risk of fluctuations in the price of the Ordinary Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event

The market price of the Preferred Securities is expected to be affected by fluctuations in the market price of the Ordinary Shares, in particular if at any time there is a significant deterioration in the CET1 ratio by reference to which the determination of any occurrence of the Trigger Event is made, and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Market prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Group, the results of operations and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares or any indication that the Bank's or the Group's CET1 ratio is decreasing (and hence the risk of a Trigger Event occurring is becoming increasingly proximate) may have an adverse effect on the market price of the Preferred Securities. The level of the CET1 ratio specified in the definition of Trigger Event may also significantly affect the market price of the Preferred Securities and/or the Ordinary Shares.

Fluctuations in the market price of the Ordinary Shares between the date upon which notice of Conversion is given and the Conversion Settlement Date may further affect the value to a Holder of any Ordinary Shares delivered to that Holder on the Conversion Settlement Date.

Preferred Securities are perpetual

The Bank is under no obligation to redeem the Preferred Securities at any time and the holders of the Preferred Securities have no right to call for their redemption. Only in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares) will confer an entitlement to receive out of the assets of the Bank available for distribution to holders, the Liquidation Distribution.

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

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

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

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

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

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

Under the terms of the Preferred Securities, a Capital Event is a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would be likely to result) in: (i) the exclusion of any of the outstanding aggregate Liquidation Preference of the Preferred Securities from the Bank´s or the Group's Additional Tier 1 capital; or (ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of regulatory capital of the Bank or the Group in accordance with the Applicable Banking Regulations. See also Condition 7(c).

For the purposes of the Preferred Securities, a Tax Event is a change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by court of competent jurisdiction) that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being obliged to pay additional amounts pursuant to Condition 13 and such obligation cannot be avoided by the Bank taking reasonable measures available to it, or (c) the applicable tax treatment of the Preferred Securities being materially affected. See also Condition 7(d).

If any notice of redemption of the Preferred Securities is given pursuant to Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 6.

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

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

Substitution and variation of the Preferred Securities without Holder consent

Subject to Condition 7, if a Tax Event or a Capital Event occurs, the Bank may, instead of redeeming the Preferred Securities, at any time, without the consent of the Holders, and subject to receiving consent from the Competent Authority, either (a) substitute the Preferred Securities for new preferred securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that the Preferred

Securities may become or remain Qualifying Preferred Securities, provided that such substitution or variation shall not result in terms that are materially less favourable to the Holders, as certified by two Authorised Signatories (as defined in the Conditions) of the Issuer and an Independent Financial Adviser (as defined in the Conditions). In the exercise of its discretion, the Bank will have regard to the interest of the Holders as a class. The Bank may not substitute the Preferred Securities or vary the terms of the Preferred Securities if a Trigger Event has occurred notwithstanding that notice may have been given by the Bank.

Further, 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 Agents, the Bank, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual holders of Preferred Securities.

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

The Preferred Securities accrue Distributions as further described in Condition 4, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any distribution in whole or in part at any time and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. The level of Bankia's Available Distributable Items is affected by a number of factors. Bankia's future Available Distributable Items, and therefore the ability of the Bankia to make Distributions under the Preferred Securities, are a function of Bankia's existing Available Distributable Items and its future profitability. The level of the Issuer's Available Distributable Items may also be affected by changes to accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect Bankia's Available Distributable Items in the future.

Bankia's Available Distributable Items, and therefore Bankia's ability to make Distributions under the Preferred Securities, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the issuer and the Group operates and other factors outside Bankia's control. In addition, adjustments to earnings, as determined by the management of Bankia, may fluctuate significantly and may materially adversely affect Available Distributable Items. No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank or the Group, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive). See further "*—CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount*" below.

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

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

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

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

Furthermore, upon the occurrence of the Trigger Event, no further Distributions on the Preferred Securities will be made, including any accrued and unpaid Distributions, which will be cancelled.

Additionally, in relation to the foregoing, investors should be aware that the Bank shall only pay any additional amounts payable in accordance with Condition 13 to the extent such payment can be made on the same basis as for a payment of any Distribution in accordance with Condition 4.

The obligations of the Bank under the Preferred Securities are senior in ranking to the Ordinary Shares of the Bank. It is the Bank's current intention that, whenever exercising its discretion to propose any dividend or distributions in respect of the Ordinary Shares, or its discretion to cancel Distributions, it will take into account the relative ranking of these instruments in its capital structure. However, the Bank may at any time depart from this policy at its sole discretion, and as further set out in this risk factor, in accordance with the Applicable Banking Regulations and the Conditions, it may discretionarily elect to cancel Distributions at any time and for any reason.

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

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

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of RWAs. In addition to these so-called own funds requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional P2R capital that may be required to be maintained to address risks not considered to be fully captured by the minimum own funds requirements or to address macro-prudential considerations, and this may similarly include, under the Proposals made by the European Commission on 23 November 2016, further regulatory requirements such as the TLAC/MREL Requirements. The Group may also decide to hold additional capital or more senior liabilities.

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

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

In accordance with Article 73 of Royal Decree 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, the restrictions on discretionary payments will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the institution generated since the last annual decision on the distribution of profits. Such calculation will result in a Maximum Distributable Amount in each relevant period. As an example, the scaling is such that in the bottom quartile of the combined buffer requirement, no discretionary payments will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Bank of its discretion to cancel (in whole or in part) payments of Distributions (or payment of any additional amounts payable in accordance with Condition 13) in respect of the Preferred Securities.

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

- the Maximum Distributable Amount applies when the combined buffer requirement is not maintained. The combined buffer requirement represents the amounts of capital that a financial institution is required to maintain beyond the minimum Pillar 1 and (if applicable) P2R capital requirements required by applicable regulations. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust) and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;
- the capital conservation buffer and the institution-specific countercyclical buffer were implemented on 1 January 2016 on a phased basis continuing to 2019. The systemic risk buffer may be applied at any time upon decision of the relevant authorities. As a result, the potential impact of the Maximum Distributable Amount will change over time; and
- moreover, payments made earlier in the year will reduce the remaining Maximum Distributable Amount available for payments later in the year, and the Bank will have no obligation to preserve any portion of the Maximum Distributable Amount for payments scheduled to be made later in a given year. Even if the Bank attempts to do so, there can be no assurance that it will be successful, as the Maximum Distributable Amount at any time will depend on the amount of net income earned during the course of the relevant year, which will necessarily be difficult to predict.

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

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

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

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

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

Separately, certain regulatory proposals may restrict the Bank's ability to make discretionary payments in certain circumstances, in which case the Bank may reduce or cancel interest payments on the Preferred Securities. For example, under the Proposals made by the European Commission on 23 November 2016, a firm will be deemed not to have met its combined buffer requirement, and will become subject to the restrictions of Article 141 of CRD IV, where it does not have own funds and eligible liabilities in an amount and quality to meet: (i) its combined buffer requirement, (ii) its 4.5 per cent. Pillar 1 CET1 capital requirement, (iii) its 6 per cent. Pillar 1 Tier 1 requirement, (iv) its 8 per cent. Pillar 1 capital requirement, and (v) its Pillar 1 MREL requirements. Separately, these proposals also state that where an institution fails to meet or exceed its combined buffer requirement, in making distributions within the Maximum Distributable Amount, it shall not make distributions relating to CET1 capital or variable remuneration payments before having made payments on its additional tier 1 instruments. However, these proposals are in draft form and are still subject to the EU legislative process and national implementation and, therefore, it is not clear whether these proposals will be adopted in their current form and there may therefore be a risk that they will negatively impact the Bank, the Group and the Bank's ability to make interest payments on the Preferred Securities and therefore the market value of the Preferred Securities.

Furthermore, any determination of the capital of the Group or the Bank and the compliance of the Group or the Bank with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or a combination of which may not be easily observable, foreseeable or capable of calculation by holders of the Preferred Securities and some of which may also be outside the control of the Group or the Bank. The risk of any cancellation (in whole or in part) of Distributions (or any additional amounts payable in accordance with Condition 13) on the Preferred Securities may not, therefore, be possible to predict in advance and any such cancellation of Distributions (or any additional amounts payable in accordance with Condition 13) on the Preferred Securities could occur without warning.

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

As outlined in the risk factor "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount*" above, the regulatory framework around the TLAC/MREL Requirements, including its implementation in Spain, is not yet in final form and is also the subject of the Proposals. If the Proposals are adopted in their current form, a failure by the Bank and/or the Group to comply with the TLAC/MREL Requirements means the Bank could become subject to the restrictions on payments on Additional Tier 1 instruments, including the Preferred Securities (subject to a potential six month grace period in case specific conditions are met). If the Bank becomes subject to these restrictions, the Proposals provide that any discretionary payments on the Preferred Securities and other Additional Tier 1 instruments (which will be subject to the Maximum Distributable Amount restrictions) should be prioritised over distributions on CET1 capital or discretionary employee bonus/pension payments.

There are no events of default

Holders of Preferred Securities have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution (or any additional amounts payable in accordance with Condition 13) in whole or in part at any time and as further contemplated in Condition 4 (see "*—Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*") and such cancellation will not constitute any event of default or similar event or entitle holders of the Preferred Securities to take any related action against the Bank. If Ordinary Shares are not issued and delivered following a Trigger Event, then on a liquidation, dissolution or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

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

The Preferred Securities are perpetual (see "*Preferred Securities are perpetual*"). The Bank has the option to redeem the Preferred Securities in certain circumstances (see "*The Preferred Securities may be redeemed at the option of the*

Bank"). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 7 and 8). There can be no assurance that holders of the Preferred Securities will be able to reinvest the amount received upon any redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

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

(i) if the Bank exercises its rights to redeem the Preferred Securities in accordance with Condition 7 (on any Distribution Payment Date falling on or after the First Reset Date or upon the occurrence of a Capital Event or a Tax Event) (see "*—The Preferred Securities may be redeemed at the option of the Bank*") or purchase the Preferred Securities in accordance with Condition 8; or

(ii) by selling their Preferred Securities or, following the occurrence of a Trigger Event and the issue and delivery of Ordinary Shares in accordance with Condition 6, their Ordinary Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Ordinary Shares (see "*—The secondary market generally*").

If the Bank exercised its right to redeem or purchase the Preferred Securities in accordance with Condition 7 but failed to make payment of the relevant Liquidation Preference to redeem the Preferred Securities when due, such failure would not constitute an event of default but would entitle holders of the Preferred Securities to bring a claim for breach of contract against the Bank, which, if successful, could result in damages.

Holders of the Preferred Securities have limited anti-dilution protection

The number of Ordinary Shares to be issued and delivered on Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date. The Conversion Price will be, if the Ordinary Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Current Market Price of an Ordinary Share; (b) the Floor Price; and (c) the nominal value of an Ordinary Share (being €1 on the Closing Date) or, if the Ordinary Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 7 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Ordinary Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Ordinary Shares, but only in the situations and to the extent provided in Condition 6(c). There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares or that, if a Holder were to have held the Ordinary Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

Furthermore, the Conditions do not provide for certain undertakings from the Bank which are sometimes included in securities that convert into the ordinary shares of a bank to protect investors in situations where the relevant conversion price adjustment provisions do not operate to neutralise the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Ordinary Shares nor an undertaking restricting issues of new share capital with preferential rights relative to the Preferred Securities.

Further, if the Bank issues any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares and such Dividend does not constitute an Extraordinary Dividend, no Floor Price adjustment shall be applicable in accordance with Conditions 6(c)(ii) and 6(c)(iii), and therefore holders of the Preferred Securities will not be protected by anti-dilution measures.

Accordingly, corporate events or actions in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Preferred Securities.

In order to comply with any increase in regulatory capital requirements imposed by applicable regulations, the Bank may need to take strategic actions, which may include raising additional capital. Any further capital raisings by the Bank could result in the dilution of the interests of the holders of the Preferred Securities, subject only to the limited anti-dilution protections referred to above.

The obligations of the Bank under the Preferred Securities are subordinated and will be further subordinated upon conversion into Ordinary Shares

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

In addition, if the Bank were wound up, liquidated or dissolved, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other creditors ranking ahead of holders of the Preferred Securities. If the Bank does not have sufficient assets to settle claims of prior ranking creditors in full, the claims of the holders of the Preferred Securities under the Preferred Securities will not be satisfied. Holders of the Preferred Securities will share equally in any distribution of assets with the holders of any other instruments ranking pari passu with the Preferred Securities if the Bank does not have sufficient funds to make full payment to all of them. In such a situation, holders of the Preferred Securities could lose all or part of their investment.

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

Therefore, if a Trigger Event occurs, each Holder will be effectively further subordinated from being the holder of a subordinated debt instrument to being the holder of Ordinary Shares and there is an enhanced risk that holders of the Preferred Securities will lose all or some of their investment.

If a Delivery Notice is not duly delivered by a Holder, that Holder will bear the risk of fluctuations in the price of the Ordinary Shares and the Bank may, in its sole and absolute discretion, cause the sale of any Ordinary Shares underlying the Preferred Securities

In order to obtain delivery of the relevant Ordinary Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 6(j). If a duly completed Delivery Notice is not so delivered, then a Holder will bear the risk of fluctuations in the price of the Ordinary Shares that may further affect the value of any Ordinary Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-off Date (save as provided below), in its sole and absolute discretion, elect to appoint a person (the **Selling Agent**) to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

Due to the fact that, in the event of the Trigger Event, investors are likely to receive Ordinary Shares at a time when the market price of the Ordinary Shares is very low, the cash value of the Ordinary Shares received upon any such sale could be substantially lower than the price paid for the Preferred Securities at the time of their purchase. In addition, the proceeds of such sale may be further reduced as a result of the number of Ordinary Shares offered for sale at the same time being much greater than may be the case in the event of sales by individual holders of the Preferred Securities.

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

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

The Conditions provide that holders of the Preferred Securities 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 of the Preferred Securities will not at any time be entitled to set-off the Bank's obligations under the Preferred Securities against obligations owed by them to the Bank.

There are limited remedies available under the Preferred Securities

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

Holders of the Preferred Securities may be obliged to make a takeover bid in case of a Trigger Event if they take delivery of Ordinary Shares

Upon the occurrence of a Trigger Event, a Holder receiving Ordinary Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to the Spanish Securities Market Law, and Royal Decree-Law 1066/2007, of 27 July, as amended, on the legal regime of takeover bids, which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, if its aggregate holding in the Bank exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent. of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Ordinary Shares.

Holders of the Preferred Securities may be subject to disclosure obligations and/or may need approval by the Group's Competent Authority

As the holders of the Preferred Securities may receive Ordinary Shares if a Trigger Event occurs, an investment in the Preferred Securities may result in holders of the Preferred Securities, following Conversion, having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations applicable in Spain.

Pursuant to Spanish law, the Bank and the CNMV must be notified by a natural or legal person when the percentage of voting rights or shares in the Bank controlled by that person, by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or exceeds 3 per cent. and certain specified percentages thereafter. See "*Description of Share Capital—Reporting Requirements*".

Additionally, any natural or legal person, or such persons acting in concert, who acquire, directly or indirectly, a holding of 5 per cent. must immediately notify the Bank and the Bank of Spain. If the holding that is to be acquired reaches 10 per cent. or more of the capital or the voting rights or any other percentage which makes it possible to exercise a significant influence over the management of a Spanish bank (in any case when there is the capacity to appoint or dismiss a board member), such person must first notify the Bank of Spain and, as soon as it receives such notice, the Bank of Spain shall then request the Spanish Anti-Money Laundering Authority for a report. See "*Description of Share Capital—Legal Restrictions on Acquisitions of shares in Spanish Banks*".

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by holders of the Preferred Securities of substantial fines and/or suspension of voting rights associated with the Ordinary Shares. Accordingly, each potential investor should consult its legal advisers as to the terms of the Preferred Securities, in respect of its existing shareholding and the level of holding it would have if it receives Ordinary Shares following a Trigger Event.

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

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

the Ordinary Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

Prior to the issue and registration of the Ordinary Shares to be delivered following the occurrence of a Trigger Event, holders of the Preferred Securities will not be entitled to any rights with respect to such Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares

Any pecuniary rights with respect to the Ordinary Shares, in particular the entitlement to dividends, shall only arise and the exercise of voting rights and rights related thereto with respect to any Ordinary Shares is only possible after the date on which, following a Conversion, as a matter of Spanish law, the relevant Ordinary Shares are issued and the person entitled to the Ordinary Shares is registered as a shareholder in the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.*) (**Iberclear**) and its participating entities in accordance with the provisions of, and subject to the applicable Spanish law and the limitations provided in, the articles of association of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Ordinary Shares after the occurrence of a Trigger Event shall result in the holders of the Preferred Securities not receiving any benefits related to the holding of the Ordinary Shares and, on a liquidation, dissolution or winding-up of the Bank, the entitlement of any such holders of the Preferred Securities will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up, as more particularly described in Condition 5(b).

Furthermore, under Spanish law, only the holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and to exercise voting, pre-emptive and other rights in respect of such shares. Accordingly, investors who are not registered in Iberclear and hold their shares in Euroclear, Clearstream or otherwise will have to rely on the procedure of Euroclear and Clearstream (and any bridging systems with Iberclear), or the procedures otherwise applicable to them, in order to benefit from and exercise such rights.

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

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

The Preferred Securities may be subject to withholding taxes in circumstances where the Bank is not obliged to make gross up payments

Spanish withholding tax regime

The Bank considers that, pursuant to the provisions of the Royal Decree 1065/2007, as amended, it is not obliged to withhold taxes in Spain on any interest paid on the Preferred Securities to any holder, irrespective of whether such holder of Preferred Securities is tax resident in Spain. The foregoing is subject to the Issuing and Principal Paying Agent complying with certain information procedures described in "*Taxation*" below.

The Bank and the Issuing and Principal Paying Agent will, to the extent applicable, comply with the relevant procedures to facilitate the collection of information concerning the Preferred Securities. The procedures may be modified, amended or supplemented to, among other reasons, reflect a change in applicable Spanish law, regulation, ruling or interpretation thereof. Under Royal Decree 1065/2007, as amended, it is no longer necessary to provide an issuer with information regarding the identity and the tax residence of an investor or the amount of interest paid to it in order for the issuer to make payments free from Spanish withholding tax, provided that the securities: (i) are regarded as listed debt securities issued under Law 10/2014; and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state. The Bank expects that the Preferred Securities will meet the requirements referred to in (i) and (ii) above and that, consequently, payments made by the Bank to holders of Preferred Securities should be paid free of Spanish withholding tax, provided the Issuing and Principal Paying Agent complies with the procedural requirements referred to above. In the event a payment in respect of the Preferred Securities is subject to Spanish withholding tax, the Bank will pay the relevant holder of the Preferred Securities such additional amounts as may be necessary in order that the net amount received by such holder after such

withholding equals the sum of the respective amounts of principal and interest, if any, which would otherwise have been receivable in respect of the Preferred Securities in the absence of such withholding.

If the Spanish Tax Authorities maintain a different opinion as to the application by the Bank of withholding to payments made to Spanish tax residents (individuals and entities subject to Corporate Income Tax (*Impuesto sobre Sociedades*)), the Bank will be bound by the opinion and, with immediate effect, will make the appropriate withholding. If this is the case, identification of holders of the Preferred Securities may be required and the procedures, if any, for the collection of relevant information will be applied by the Bank (to the extent required) so that it can comply with its obligations under the applicable legislation as interpreted by the Spanish Tax Authorities. If procedures for the collection of the holders' of the Preferred Securities information are to apply, the holders will be informed of such new procedures and their implications.

Notwithstanding the above, in the case of Preferred Securities held by Spanish tax resident individuals and, under certain circumstances, by Spanish entities subject to Corporate Income Tax and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Preferred Securities may be subject to withholding by such depositary or custodian (currently 19 per cent.) and the Bank may not be required to pay the relevant holder of Preferred Securities additional amounts (as described above, please see Condition 13).

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

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

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

U.S. Foreign Account Tax Compliance Withholding

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

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 8. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption moneys payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or may receive nothing at all.

Risks relating to EURIBOR and other Benchmarks"

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

In this respect, the Benchmark Regulation, which was published in the Official Journal of the EU on 29 June 2016, applies to "contributors", "administrators" and "users" of "benchmarks" in the EU, and will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of "benchmarks" (or, if non EU based, to be subject to equivalent requirements) and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised/registered (or, if non EU based, deemed equivalent or recognised or endorsed). As at the date of this Offering Circular, ICE Benchmark Administration Limited and the European Money Markets Institute do not appear on the register of administrators and benchmarks established and maintained by ESMA.

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

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

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

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

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

Interest rate risk

Investment in the Preferred Securities involves the risk that changes in market interest rates may adversely affect the value of the Preferred Securities.

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

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

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

The Preferred Securities are expected, upon issue, to be assigned a BB- rating by Standard & Poor's. As the Preferred Securities will not be considered investment grade, will be subject to higher risk of price volatility than higher rated securities. Furthermore, deteriorating outlooks for the Bank or the Group, or volatile markets, could lead to significant deterioration in market prices of below investment grade rate securities such as the Preferred Securities. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Preferred Securities does not address the likelihood that Distributions (or any additional amounts payable in accordance with Condition 13) or any other payments in respect of the Preferred Securities will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

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

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in

the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

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

Legal investment considerations may restrict certain investments

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

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Offering Circular provided however that any statement contained in any document incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such statement:

1. an English language translation of the audited consolidated financial statements (including the auditors' report thereon, notes thereto and the management report) of the Issuer in respect of the year ended 31 December 2017 which is available on:

   http://www.bankia.com/recursos/doc/corporativo/20120927/anual/annual-report-consolidated-financial-statements-2017.pdf

2. an English language translation of the audited consolidated financial statements (including the auditors' report thereon, notes thereto and management report) of the Issuer in respect of the year ended 31 December 2016 which is available on:

   http://www.bankia.com/recursos/doc/corporativo/20121001/ingles74659/2016-cons-financial-statements-management-report-and-auditors-report.pdf

3. an English language translation of the audited consolidated interim financial statements (including the auditors' report thereon, notes thereto and management report) of the Issuer for the six-month period ended 30 June 2018, which are available on:

   https://www.bankia.com/recursos/doc/corporativo/2018/07/31/h1-2018-audited-consolidated-financial-statements.pdf

   https://www.bankia.com/recursos/doc/corporativo/2018/07/31/h1-2018-interim-directors-report.pdf

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

The documents listed at 1, 2 and 3 above are also available for viewing in the original Spanish language on www.cnmv.es and at www.bankia.com. The audited consolidated financial statements for the years indicated above have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (**IFRS-EU**), considering Circular 4/2004 of the Bank of Spain and subsequent amendments.

Electronic copies of the documents specified above as containing information incorporated by reference in this Offering Circular may be inspected, free of charge, during usual business hours at the head office of the Bank, as at the date of this Offering Circular at Calle del Pintor Sorolla, 8, 46002 Valencia, Spain and at the head office of the Principal Paying Agent, as at the date of this Offering Circular at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom. Any information contained in any of the documents specified above which is not incorporated by reference in this Offering Circular is either not relevant to investors or covered elsewhere in this Offering Circular.

Pursuant to Spanish regulatory requirements, management reports are required to accompany the audited consolidated financial statements as of and for each of the years ended 31 December 2017 and 2016. Investors are cautioned that such reports contain information as of various historical dates and may not contain a current description of the business, affairs or results of the Group. The information contained in the management reports has not been audited or prepared for the specific purpose of the issue of the Preferred Securities and/or this Offering Circular. Accordingly, the management reports should be read together with the other sections of this Offering Circular, and particularly "*Risk Factors*" and "*Description of the Issuer and its Group*". Any information contained in the management reports is deemed to be modified or superseded by any information contained elsewhere in this Offering Circular that is subsequent to or inconsistent with it. Furthermore, the management reports include certain forward-looking statements that are subject to inherent uncertainty. Accordingly, investors are cautioned not to rely upon the information contained in such management reports.

OVERVIEW OF THE OFFERING

The following is an overview of certain information relating to the offering of the Preferred Securities, including the principal provisions of the terms and conditions thereof. This overview must be read as an introduction to this Offering Circular and any decision to invest in the Preferred Securities should be based on a consideration of this Offering Circular 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 Offering Circular. See, in particular, "Conditions of the Preferred Securities".

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

Issuer:	Bankia, S.A.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under "*Risk Factors*" above and include the Spanish economy and the global macroeconomic environment and risks relating to increasingly onerous capital requirements, the lack of availability of funding, volatility in interest rates and increased competition. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under "*Risk Factors*".
Issue size:	€500,000,000
Issue date:	19 September 2018
Issue details:	€500,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 Liquidation Preference each. The Bank has requested that the Preferred Securities qualify as Additional Tier 1 Capital of the Bank and/or the Group pursuant to Applicable Banking Regulations.
Liquidation Preference:	€200,000 per Preferred Security.
Use of Proceeds:	The Bank intends to use the net proceeds from the issue of the Preferred Securities for the general corporate purposes of Bankia.
Distributions:	The Preferred Securities will accrue Distributions as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.375 per cent. per annum; and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date. Subject as provided in Condition 4 (see "Limitations on Distributions" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date. For further information, see Condition 4.
Limitations on Distributions:	The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Without prejudice to the right of the Bank to cancel the payments of any Distribution: (a) Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid

or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

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

(c) No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any applicable Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive).

(d) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any further Distribution on the Preferred Securities and any accrued and unpaid Distributions will be cancelled.

For further information, see Condition 4.

Status of the Preferred Securities: The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2(b) in accordance with Article 92.2º of the Insolvency Law and with Additional Provision 14.3º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise).

For further information, see Condition 2(b).

Optional Redemption: All, and not only some, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price.

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

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

For further information, see Condition 7.

Conversion: In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued Ordinary Shares at the Conversion Price. A Trigger Event occurs if the CET1 ratio of

	the Issuer or the Group is less than 5.125 per cent. For further information, see Condition 6.
Conversion Price:	If the Ordinary Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Current Market Price of an Ordinary Share; (ii) the Floor Price; and (iii) the nominal value of an Ordinary Share (being €1 on the Closing Date), or (b) not then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of subparagraph (ii) or (iii) of paragraph (a) above. The Floor Price is subject to adjustment in accordance with Condition 6(c).
Liquidation Distribution:	Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 6) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or, to the extent permitted by law, any other instrument of the Bank ranking junior to the Preferred Securities. If, before such liquidation, dissolution or winding-up of the Bank described above, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to Condition 6 is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.
Substitution and Variation	Following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to receiving consent from the Competent Authority, having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14, either (a) substitute new preferred securities for the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that, in either case, the Preferred Securities remain or, as appropriate, so that they become, Qualifying Preferred Securities.
Waiver of set-off:	No Holder may at any time exercise any right of, or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities against any right, claim, or liability the Bank has or may have or acquire against such Holder, directly or indirectly, howsoever arising. Each Holder shall be deemed to have waived all rights of, or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Preferred Securities to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities.
Purchases:	The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Competent Authority, if required.
Voting Rights:	The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the above, the Conditions of the Preferred Securities

	contain provisions for convening meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. For further information, see Condition 10.
Withholding Tax and Additional Amounts:	As provided in Condition 13, all payments of Distributions and other amounts payable in respect of the Preferred Securities by 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 the 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 Spain, the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required. For further information, see Condition 13 and "*Taxation—Tax treatment of the Preferred Securities—Reporting Obligations*" below.
Form:	The Preferred Securities will be issued in registered form and will be evidenced by a global Preferred Security, which will be registered in the name of a nominee for, and deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream, Luxembourg.
Rating:	The Preferred Securities are expected, on issue, to be assigned a BB- rating by Standard & Poor's. 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.
Listing:	Application has been made to the Irish Stock Exchange, now trading as Euronext Dublin, for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.
Governing Law:	The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Preferred Securities in France, Italy, the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the Securities Act apply.

CONDITIONS OF THE PREFERRED SECURITIES

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

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

The Preferred Securities will be issued following the registration with the Mercantile Registry of Valencia of a public deed relating to the issuance of the Preferred Securities before the Closing Date (as defined below).

Paragraphs in italics within these Conditions are a summary of certain procedures of Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg** and, together with Euroclear, the **European Clearing Systems**) and certain other information applicable to the Preferred Securities. The European Clearing Systems may, from time to time, change their procedures.

1. DEFINITIONS

(a) For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

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

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

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

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

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

(ii) is in a Representative Amount,

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

Additional Amounts has the meaning given in Condition 13;

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

Additional Ordinary Shares has the meaning given in Condition 6(d);

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

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

Agency Agreement means the agency agreement dated on or about the Closing Date relating to the Preferred Securities;

Agent Bank means The Bank of New York Mellon, London Branch and includes any successor agent bank appointed in accordance with the Agency Agreement;

Agents means the agents appointed in accordance with the Agency Agreement;

Applicable Banking Regulations means at any time the laws, regulations delegated or implementing acts, regulatory or implementing technical standards, rules,, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank and/ or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Competent Authority (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);

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

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

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

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

(i) the exclusion in whole or in part of any of the outstanding aggregate Liquidation Preference of the Preferred Securities from the Bank and/ or the Group's Additional Tier 1 Capital; or

(ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of own funds of the Bank and/ or the Group in accordance with the Applicable Banking Regulations;

Cash Dividend means any Dividend which is to be paid or made in cash (in whatever currency), other than any such Dividend falling within paragraph (ii) of the definition of Spin-Off;

CET means Central European Time;

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

CET1 ratio means, at any time with respect to the Bank or the Group, the reported ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Bank or the Group, respectively, at such time, divided by the Risk-Weighted Assets Amount of the Bank or the Group, respectively, at such time, all as calculated by the Bank;

Clearing System Preferred Securities means, for so long as any of the Preferred Securities is represented by a global preferred security held by or on behalf of a European Clearing System, any particular Liquidation Preference of the Preferred Securities shown in the records of a European Clearing System as being held by a Holder;

Closing Date means 19 September 2018;

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

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

Conversion means a Trigger Conversion;

Conversion Price means, in respect of the Trigger Event Notice Date, if the Ordinary Shares are:

(i) then admitted to trading on a Relevant Stock Exchange, the higher of:

(A) the Current Market Price of an Ordinary Share;

(B) the Floor Price; and

(C) the nominal value of an Ordinary Share at the time of conversion (being €1.00 on the Closing Date), in each case on the Trigger Event Notice Date; or

(ii) not then admitted to trading on a Relevant Stock Exchange, the higher of subparagraph (B) or (C) of paragraph (i) above;

Conversion Settlement Date means the date on which the relevant Ordinary Shares are to be delivered on Trigger Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations or the Competent Authority may require) the Trigger Event Notice Date;

Conversion Shares has the meaning given in Condition 6(b);

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

CRD IV Directive means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;

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 Competent Authority, which are applicable to the Bank (on a stand alone basis) or the Group (on a consolidated basis) including, without limitation, Spanish Law 10/2014, as amended from time to time, and any other regulation, circular or guidelines implementing Law 10/2014;

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;

Current Market Price means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) (the **Relevant Period**); provided that if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement)

and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

(i) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement relating to such Dividend or entitlement; or

(ii) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement relating to such Dividend or entitlement,

and provided further that:

(A) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement; and

(B) if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period, or if the Ordinary Shares are not admitted to trading on a Relevant Stock Exchange at any relevant time for these purposes, the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

dealing day means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

Delivery Notice means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream, Luxembourg from time to time, which contains the relevant account and related details for the delivery of any Ordinary Shares and all relevant certifications and/or representations as may be required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a conversion of the Preferred Securities and the delivery of the Ordinary Shares;

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

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

Distribution Payment Date means 19 December, 19 March, 19 June and 19 September, in each year, with the first Distribution Payment Date falling on 19 December 2018;

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

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

Dividend means any dividend or distribution to Shareholders in respect of the Ordinary Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of a share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital, provided that:

(i) where:

(A) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (I) the Fair Market Value of such cash amount and (II) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or

(B) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;

(ii) any issue of Ordinary Shares falling within Condition 6(c)(i) or 6(c)(ii) shall be disregarded;

(iii) a purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy-backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Act for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy-back of Ordinary Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy-backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy-backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of

such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy-back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by or on behalf of the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (A) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (B) the number of Ordinary Shares so purchased, redeemed or bought back;

(iv) if the Bank or any member of the Group shall purchase, redeem or buy-back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (iii) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and

(v) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

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

equity share capital means, in relation to any entity, its issued share capital excluding any part of that capital which, in respect of dividends and capital, does not carry any right to participate beyond a specific amount in a distribution;

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

EURIBOR 6-month means:

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

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

Existing Shareholders has the meaning given in the definition of Newco Scheme;

Extraordinary Resolution has the meaning given to it in Condition 10;

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith provided that:

(i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend;

(ii) the Fair Market Value of any other cash amount shall be the amount of such cash;

(iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (A) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (B) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (A) and (B) above during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and

(iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking into account such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

First Reset Date means 19 September 2023;

Floor Price means €2.20, subject to adjustment in accordance with Condition 6(c);

Further Preferred Securities means any substantively similar Parity Securities which are contingently convertible into Ordinary Shares other than at the option of the holders thereof;

Group means the Bank together with its consolidated Subsidiaries;

Holders means the persons in whose names the Preferred Securities are registered in the register of Holders;

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

Independent Financial Adviser means an independent financial firm or institution of international repute appointed by the Bank at its own expense;

Independent Financial Adviser Certificate means a certificate signed by a representative of an Independent Financial Adviser stating that, in the opinion of such Independent Financial Adviser, (i) the changes determined by the Bank pursuant to a substitution or variation of the Preferred Securities under Condition 7 will result in the Qualifying Preferred Securities having terms not materially less favourable to the Holders than the terms of the Preferred Secrities on issue and (ii) the differences between the terms and conditions of the Qualifying Preferred Securities and these Conditions are only those strictly necessary to comply (a) with the requirements of the Competent Authority in relation to Additional Tier 1 Capital in accordance with Applicable Banking Regulations or (b) in the case of a Tax Event, cure the relevant Tax Event;

Initial Margin means 6.224 per cent. per annum;

Insolvency Law means Law 22/2003, of 9 July, on Insolvency (*Ley Concursal*), 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;

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

Liquidation Preference means €200,000 per Preferred Security;

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

Newco Scheme means a scheme of arrangement or an analogous proceeding (**Scheme of Arrangement**) which effects the interposition of a limited liability company (**Newco**) between the Shareholders of the Bank immediately prior to the Scheme of Arrangement (the **Existing Shareholders**) and the Bank, provided that:

(i) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;

(ii) immediately after completion of the Scheme of Arrangement, the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco are Existing Shareholders, and the Voting Rights in respect of Newco are held by Existing Shareholders in the same proportion as their respective holdings of such Voting Rights immediately prior to the Scheme of Arrangement;

(iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Bank;

(iv) all Subsidiaries of the Bank immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary) are Subsidiaries of the Bank (or of Newco) immediately after completion of the Scheme of Arrangement; and

(v) immediately after completion of the Scheme of Arrangement, the Bank (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Bank immediately prior to the Scheme of Arrangement;

Non-Cash Dividend means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

Ordinary Shares means ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank and is credited as fully paid up;

Parity Securities means any instrument issued or guarantee granted by the Bank, which instrument or guarantee ranks by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

Paying and Conversion Agents means the Principal Paying Agent and any other paying and conversion agent appointed in accordance with the Agency Agreement and includes any successors thereto appointed from time to time in accordance with the Agency Agreement;

Payment Business Day means a TARGET Business Day and, in the case of Preferred Securities in definitive form only, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation;

Preferred Securities means the €500,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities issued by the Bank on the Closing Date;

Prevailing Rate means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (CET) on that date as appearing on or derived from the Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (CET) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

Principal Paying Agent means The Bank of New York Mellon, London Branch or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 14;

Qualifying Preferred Securities means preferred securities issued by the Bank where such securities:

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

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

(iii) are listed on a Recognised Stock Exchange if the Preferred Securities were listed immediately prior to such variation or substitution.

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

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

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

Reference Date means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day;

Reference Page means the relevant page on Bloomberg or Reuters or such other information service provider that displays the relevant information;

Registrar means the Bank of New York Mellon SA/NV, Luxembourg Branch and any successor registar appointed in accordance with the Agency Agreement;

Relevant Stock Exchange means the Spanish Stock Exchanges or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on any of the Spanish Stock Exchanges, the principal stock

exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

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

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

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

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

Reset Reference Bank Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid- Swap Rate Quotations provided by the Reference Banks at approximately 11.00 (CET) on the Reset Determination Date for such Reset Date. The Agent Bank will request the principal offices of each of the Reference Banks to provide a quotation of its rate. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.305 per cent. per annum;

Retroactive Adjustment has the meaning given in Condition 6(d);

Risk-Weighted Assets Amount means at any time, with respect to the Bank or the Group, as the case may be, the aggregate amount (in the Accounting Currency) of the risk-weighted assets of the Bank or the Group, respectively, calculated in accordance with CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing-in or similar provisions;

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

Scheme of Arrangement has the meaning given in the definition of Newco Scheme;

Screen Page means the display page on the relevant Reuters information service designated as (i) in the case of the 5-year Mid-Swap Rate, the ICESWAP2 page or (ii) in the case of EURIBOR 6-month, the EURIBOR01 page, or in each case such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate or EURIBOR 6-month, as applicable;

Securities means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

Selling Agent has the meaning given in Condition 6(j);

Settlement Shares Depository means any reputable independent financial institution, trust company or similar entity to be appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed to perform such functions and who will hold Ordinary Shares in Iberclear or any of its participating entities in a designated custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

Share Currency means euro or such other currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at the relevant time or for the purposes of the relevant calculation or determination;

Shareholders means the holders of Ordinary Shares;

Spanish Companies Act means the Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Act (*Ley de Sociedades de Capital*) as amended or replaced from time to time;

Spanish Stock Exchanges means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the Automated Quotation System – Continuous Market (*Sistema de Interconexión Bursátil—Mercado Continuo*) (*SIB*) (**AQS**);

Specified Date has the meanings given in Conditions 6(c)(iv), 6(c)(vi), 6(c)(vii) and 6(c)(viii), as applicable;

Spin-Off means:

(i) a distribution of Spin-Off Securities by the Bank to the Shareholders as a class; or

(ii) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Bank or any member of the Group;

Spin-Off Securities means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

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

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

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

Tax Event means, at any time on or after the Closing Date, a change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application of such laws or regulations that results in (i) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (ii) the Bank being required to pay Additional Amounts pursuant to Condition 13 below or (iii) the applicable tax treatment of the Preferred Securities being materially affected, and, in each case, those circumstances were not reasonably foreseeable at the Closing Date and cannot be avoided by the Bank taking reasonable measures available to it;

Tier 2 Instrument means any contractually subordinated obligation of the Bank constituting a Tier 2 instrument (*instrumentos de capital de nivel 2*) in accordance with Applicable Banking Regulations, and as referred to in Additional Provision 14.3º of Law 11/2015;

Transfer Agent means the Registrar or any successor transfer agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 14;

Trigger Conversion has the meaning given in Condition 6(a);

Trigger Event means if, at any time, as determined by the Bank, Competent Authority or an agent appointed by the Competent Authority, the CET1 ratio of the Bank and/or the Group is less than 5.125 per cent.;

Trigger Event Notice has the meaning given in Condition 6(a);

Trigger Event Notice Date means the date on which a Trigger Event Notice is given in accordance with Condition 6(a);

Volume Weighted Average Price means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from the Reference Page or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate;

As at the date of this Offering Circular, the price of the Ordinary Shares, which are listed on the Relevant Stock Exchange, is published on the Reference Page on each dealing day.

Voting Rights means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the occurrence of any contingency); and

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

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

(c) References to any issue or offer or grant to Shareholders or Existing Shareholders **as a class** or **by way of rights** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

(d) In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or subdivision of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

(e) For the purposes of Condition 6(a) only (i) references to the **issue** of Ordinary Shares or Ordinary Shares being **issued** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (ii) Ordinary Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 6(c)(iv) and 6(c)(vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2. FORM, TITLE AND STATUS

(a) The Preferred Securities will be issued in registered form.

A preferred security certificate (each a **Certificate**) will be issued to each Holder in respect of its registered holding of Preferred Securities. Each Certificate will be numbered serially with an identifying number which

will be recorded on the relevant Certificate and in the register of Holders which the Bank will procure to be kept by the Registrar and at the specified office of the Registrar outside the United Kingdom.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Bank to a common depositary for the European Clearing Systems. As a result, account holders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant European Clearing System. It is anticipated that only in exceptional circumstances (such as the closure of the European Clearing Systems, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from the European Clearing Systems or failure to comply with the terms and conditions of the Preferred Securities by the Bank) will definitive Preferred Securities be issued directly to such account holders.

Title to the Preferred Securities passes only by registration in the register of Holders. The Holder of any Preferred Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any ownership or writing on it, or the previous theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

Unless previously converted into Ordinary Shares pursuant to Condition 6, the payment obligations of the Bank under the Preferred Securities on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law and, in accordance with Additional Provision 14.3º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank, for so long as the obligations of the Bank under the Preferred Securities qualify as Additional Tier 1 Instruments, rank:

(i) *pari passu* among themselves and with (A) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2 ºof the Insolvency Law qualifying as Additional Tier 1 Instruments and (B) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank´s obligations under the Preferred Securities;

(ii) junior to (A) any claims for principal in respect of unsubordinated obligations of the Bank (*créditos ordinarios y créditos con privilegio general*), (B) any subordinated obligations (*créditos subordinados*) of the Bank under Article 92.1º of the Insolvency Law, (C) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law not qualifying as Additional Tier 1 Instruments and (D) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Bank´s obligations under the Preferred Securities; and

(iii) senior to (A) any claims for the liquidation amount of the Ordinary Shares and (B) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank´s obligations under the Preferred Securities.

3. TRANSFERS OF PREFERRED SECURITIES AND ISSUE OF CERTIFICATES

a) A Preferred Security may be transferred by depositing the Certificate issued in respect of that Preferred Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Transfer Agents.

b) Each new Certificate to be issued upon transfer of Preferred Securities will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Preferred Security to the address specified in the form of transfer. For the purposes of this Condition, business day shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Preferred Securities in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Preferred Securities not so transferred will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Preferred Securities not so transferred to the address of such holder appearing on the register of Holders or as specified in the form of transfer.

c) Registration of transfer of Preferred Securities will be effected without charge by or on behalf of the Bank or any Transfer Agent but upon payment (or the giving of such indemnity as the Bank or any Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

d) No Holder may require the transfer of a Preferred Security to be registered during the period of 15 days ending on the due date for any payment due under that Preferred Security.

e) All transfers of Preferred Securities and entries on the register of Holders will be made subject to the detailed regulations concerning transfer of Preferred Securities scheduled to the Agency Agreement. The regulations may be changed by the Bank with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who requests one.

4. DISTRIBUTIONS

(a) The Preferred Securities accrue Distributions:

(i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.375 per cent. per annum; and

(ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 4(c) and 4(d), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, other than as a result of any postponement in accordance with Condition 4.(b), it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (A) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the **Accrual Date**) to (but excluding) the date on which Distributions fall due divided by (B) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(b) Subject to any applicable fiscal or other laws and regulations, the payment of Distributions on the Preferred Securities will be made in euros by the Bank on the relevant Distribution Payment Date by transfer to an account capable of receiving euro payments, as directed by the Principal Paying Agent. The Bank will be discharged from its obligations in respect of the payment of any such Distributions by payment to the Principal Paying Agent on such Distribution Payment Date to, or to the order of, the Holders.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

(c) The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason.

(d) Without prejudice to the right of the Bank to cancel the payments of any Distribution under Condition 4(c) above:

(i) Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

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

(iii) No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any applicable Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive, as amended from time to time).

(iv) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any further Distribution on the Preferred Securities and any accrued and unpaid Distributions will be cancelled.

(e) For the purposes of the cancellation of Distributions pursuant to Conditions 4(c) and 4(d) above, the term Distributions will be deemed to include, if applicable, any Additional Amounts payable pursuant to Condition 12 below.

(f) Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 4(c) above or the limitations on payment set out in Condition 4(d) above and Condition 6(a)(ii) below then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

(g) No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 4(c) above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 4(d) above and Condition 6(a)(ii) below will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank and/or the Group) or in respect of any other instrument ranking *pari passu* to the Preferred Securities.

If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) and accordingly, such Distribution shall not in any such case be due and payable. Notwithstanding the previous sentence, the Bank will give notice to the Holders in accordance with Condition 14 of any election under Condition 4(c) and of any limitation set out in Condition 4(d) occurring or applying and shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Distributions on the Preferred Securities that

will be paid on the relevant Distributions Payment Date. Any failure to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose.

(h) The Agent Bank will at, or as soon as practicable after, the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other Competent Authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof is to be published in accordance with Condition 13 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

(i) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5. LIQUIDATION DISTRIBUTION

(a) Subject as provided in Condition 5(b) below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 6 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or any other instrument of the Bank ranking junior to the Preferred Securities.

(b) If, before such liquidation, dissolution or winding-up of the Bank described in Condition 5(a), the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to Condition 6 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 5(a), will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

(c) After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 5(a) and 5(b), such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

6. CONVERSION

(a) If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:

(i) notify the Competent Authority and Holders thereof immediately following such determination by the Bank through (A) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other Competent Authority and (B) in the case of Holders, in accordance with Condition 14 below (together, the **Trigger Event Notice**);

(ii) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions; and

(iii) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Ordinary Shares (the **Trigger Conversion**) to be delivered on the relevant Conversion Settlement Date.

The Bank shall notify Holders of the expected Conversion Settlement Date and of the Conversion Price in accordance with Condition 14 not more than ten Business Days following the Trigger Event Notice Date.

Notwithstanding the previous sentence, any failure by the Bank to provide such notifications shall not have any impact on the effectiveness of or otherwise affect the Trigger Conversion or give Holders any rights as a result of such failure.

Holders shall have no claim against the Bank in respect of (A) any Liquidation Preference of Preferred Securities converted into Ordinary Shares or (B) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (I) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective on-going monitoring of the capital ratios of the Bank and/or the Group and (II) calculate and publish the CET1 ratio on at least a quarterly basis.

(b) Subject as provided in Condition 6(i), the number of Ordinary Shares to be issued on Trigger Conversion in respect of each Preferred Security to be converted (the **Conversion Shares**) shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository on behalf of that Holder in accordance with Condition 6(j). Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or, in the circumstances described in Condition 6(j), any cash amounts to which such Holders are entitled under Condition 6(j).

If a Trigger Event occurs, the Preferred Securities will be converted in whole and not in part as provided in this Condition 6.

The Preferred Securities are not convertible into Ordinary Shares at the option of the Holders at any time and are not redeemable in cash as a result of a Trigger Event.

(c) Upon the occurrence of any of the events described below, the Floor Price shall be adjusted as follows:

(i) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Ordinary Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

(ii) If and whenever the Bank shall issue any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (A) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (B) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (C) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(iii) (A) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

Effective Date means, in respect of this paragraph (A) of Condition 6(c)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

Extraordinary Dividend means any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term (including any distribution made as a result of any capital reduction), in which case the Extraordinary Dividend shall be such Cash Dividend.

(B) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non- Cash Dividend by the number of Ordinary Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy-back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy-back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

Effective Date means, in respect of this Condition 6(c)(ii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy-back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy-back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

(C) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (i) of the definition of Dividend and in the definition of Fair Market Value) be determined as at the Effective Date.

(D) In making any calculations for the purposes of this Condition 6(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (I) any consolidation or subdivision of any Ordinary Shares or (II) the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or (III) any increase in the number of Ordinary Shares in issue in the relevant year in question.

(iv) If and whenever the Bank shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue on the Effective Date;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the first date on which the Ordinary Shares are traded ex-rights, ex- options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 6(c)(iv), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6(c)(iv), C shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

(v) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Ordinary Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Ordinary Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(v), the first date on which the Ordinary Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex- warrants on the Relevant Stock Exchange.

(vi) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 6(c)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange

or subscription for or purchase of, or right to otherwise acquire Ordinary Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuance to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 6(c)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the time of issue of such Ordinary Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 6(c)(vi), the **Specified Date**), such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6(c)(vi), C shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Condition 6(c)(iv), 6(c)(v) or 6(c)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified/redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such reclassification/redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 6(c)(vii), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this Condition 6(c)(vii), C shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 6(c)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant

to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 6(c)(viii) or Condition 6(c)(vii) above,

provided that if at the time of such modification (as used in this Condition 6(c)(viii), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 6(c)(viii), C shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(ix) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Condition 6(c)(ii), 6(c)(iii), 6(c)(iv), 6(c)(v) or 6(c)(vi) above or Condition 6(c)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day under Condition 6(c)(v) above)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this Condition 6(c)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

(x) If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders.

Notwithstanding the foregoing provisions:

(A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 6(c) have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

(B) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (I) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (II) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 6(c)(iv), 6(c)(vi), 6(c)(vii) and 6(c)(viii), the following provisions shall apply:

I. the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;

II. (a) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (b) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Condition 6(c)(iv), 6(c)(vi), 6(c)(vii) or 6(c)(viii), as the case may be, plus in the case of each of (a) and (b) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (c) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (a) or (b) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

III. if the consideration or price determined pursuant to I or II above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of I above) or the relevant date of first public announcement (in the case of II above);

IV. in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any

underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

V. the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

(d) If the Conversion Settlement Date in relation to the conversion of any Preferred Security shall be after the record date in respect of any consolidation, reclassification/redesignation or subdivision as is mentioned in Condition 6(c)(i) above or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 6(c)(ii), 6(c)(iii), 6(c)(iv), 6(c)(v) or 6(c)(ix) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 6(c)(vi) and 6(c)(vii) above or of the terms of any such modification as is mentioned in Condition 6(c)(viii) above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under Condition 6(c) above (such adjustment, a **Retroactive Adjustment**), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued and delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such additional number of Ordinary Shares (if any) (the **Additional Ordinary Shares**) as, together with the Ordinary Shares issued on conversion of the Preferred Securities (together with any fraction of an Ordinary Share not so delivered to any relevant Holder), is equal to the number of Ordinary Shares which would have been required to be issued and delivered on such conversion if the relevant adjustment to the Floor Price had been made and become effective immediately prior to the relevant Trigger Event Notice Date, provided that if the Settlement Shares Depository and/or the Holders, as the case may be, shall be entitled to receive the relevant Dividend in respect of the Ordinary Shares to be issued or delivered to them, then no such Retroactive Adjustment shall be made in relation to such Dividend, and Additional Ordinary Shares shall not be issued and delivered to the Settlement Shares Depository and Holders in relation thereto.

(e) If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(f) No adjustment will be made to the Floor Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.

(g) On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other Competent Authority and Condition 14 promptly after the determination thereof.

(h) On any Trigger Conversion of the Preferred Securities, the Ordinary Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled.

(i) Fractions of Ordinary Shares will not be issued on Trigger Conversion or pursuant to Condition 6(d) and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares or Additional Ordinary Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares or Additional Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Ordinary Shares.

(j) On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository such number of Ordinary Shares as is required to satisfy in full the Bank's obligation to deliver Ordinary Shares in respect of the Trigger Conversion of the aggregate amount of Preferred Securities outstanding on the Trigger Event Notice Date.

In order to obtain delivery of the relevant Ordinary Shares upon any Trigger Conversion from the Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (i) such Delivery Notice to the Principal Paying Agent through the relevant European Clearing System and (ii) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant European Clearing System, each in accordance with the procedures of such European Clearing System) no later than five Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the **Notice Cut-off Date**).

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Ordinary Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, provided that such duly completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the tenth Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the **Selling Agent**) to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 4(b) or in such other manner and at such time as the Bank shall determine and notify to the Holders.

Such payment shall for all purposes discharge the obligations of the Bank, the Settlement Shares Depository and the Selling Agent in respect of the relevant Trigger Conversion.

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 6(j) or in respect of any sale of any Ordinary Shares, whether for the timing of any such sale or the price at or manner in which any such Ordinary Shares are sold or the inability to sell any such Ordinary Shares.

If the Bank does not appoint the Selling Agent by the tenth Business Day after the Conversion Settlement Date, or if any Ordinary Shares are not sold by the Selling Agent in accordance with this Condition 6(j), such

Ordinary Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void, and the Bank shall be entitled to procure the sale of any applicable Ordinary Shares to which the relevant Holder may be entitled in accordance with this Condition 6(j), Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this Condition 6(j) shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

(k) A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 6(j) above) all taxes arising on Trigger Conversion other than:

(i) any taxes payable by the Bank; and

(ii) any capital, issue and registration and transfer taxes or stamp duties;

in each case payable in Spain and in respect of the conversion of the Preferred Securities and the issue and delivery of the Ordinary Shares (including any Additional Ordinary Shares) in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank. For the avoidance of doubt, such Holder or the Selling Agent (as the case may be) must pay (in the case of the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or Selling Agent, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

(l) The Ordinary Shares (including any Additional Ordinary Shares) issued on Trigger Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the Trigger Event Notice Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Trigger Event Notice Date or, as the case may be, the relevant Reference Date.

(m) Notwithstanding any other provision of this Condition 6 and subject to compliance with the provisions of the Spanish Companies Act and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

7. OPTIONAL REDEMPTION

(a) The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 7.

(b) Subject to Conditions 7(c) and 7(d) below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulation then in force, and in particular, for the avoidance of doubt, Article 78 of CRR, as amended or replaced).

(c) If, on or after the Closing Date, there is a Capital Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force, and in particular, for the avoidance of doubt, Article 78 of CRR, as amended or replaced), at any time, at the Redemption Price.

(d) If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force, and in particular, for the avoidance of doubt, Article 78 of CRR, as amended or replaced), at any time, at the Redemption Price.

(e) The decision to redeem the Preferred Securities must be, subject to Condition 6(a) above, irrevocably notified by the Bank to the Holders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other Competent Authority and Condition 14.

The Bank will not give notice under this Condition 7(e) unless, at least 15 days prior to the publication of any notice of redemption, it has delivered to the Agent Bank:

(i) a certificate signed by two of its duly authorised officers stating that a Capital Event or a Tax Event has occurred, or there is sufficient certainty that it will occur, as the case may be, and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(ii) in the case of a redemption as a result of a Tax Event, an opinion of a recognised law firm of international standing to the effect that the relevant Tax Event has occurred or there is sufficient certainty that it will occur.

(f) If the Bank gives notice of redemption of the Preferred Securities, then by 12 noon (CET) on the relevant redemption date, subject to Condition 6(a) above, the Bank will:

(i) irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

(ii) give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders.

(g) If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:

(i) Distributions on the Preferred Securities shall cease;

(ii) such Preferred Securities will no longer be considered outstanding; and

(iii) the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.

(h) The Bank may not give a notice of redemption pursuant to this Condition 7 if a Trigger Event Notice has been given. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 6. The Bank shall give notice of any such automatic rescission of a redemption notice to the Holders in accordance with Condition 14 as soon as possible thereafter.

(i) If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue in accordance with Condition 3 above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

(j) Following the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, without the consent of the Holders, and subject to (i) receiving any consent required from the Competent Authority and (ii) having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14, either (a) substitute new preferred securities for the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of the Preferred Securities, so that, in either case, the Preferred Securities remain or, as appropriate, so that they become, Qualifying Preferred Securities.

The Bank may not substitute the Preferred Securities or vary the terms of the Preferred Securities according to the preceding paragraph if the Trigger Event has occurred. If the Trigger Event has occurred after a notice of substitution or variation has been given by the Bank but before the relevant substitution or variation is effected, such notice shall automatically be revoked and be null and void and the relevant substitution or variation shall not be made.

8. PURCHASES OF PREFERRED SECURITIES

The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time and, in particular, for the avoidance of doubt Article 78 of CRR and Commission Delegated Regulation (EU) No 241/2014, each as amended or replaced, and subject to the prior consent of the Competent Authority, if required.

Any Preferred Securities so acquired by the Bank or any member of the Group may, subject to the prior consent of the Competent Authority where required under Article 78 of CRR as amended or replaced (and otherwise in accordance with Applicable Banking Regulations in force), be held, resold or, at the option of the Bank or such member of the Group, surrendered to a Paying and Conversion Agent for cancellation.

9. WAIVER OF SET-OFF

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

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

10. UNDERTAKINGS

So long as any Preferred Security remains outstanding, the Bank will, save as otherwise permitted or required pursuant to an Extraordinary Resolution:

(a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Trigger Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;

(b) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Ordinary Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the Board of Directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of any Trigger Conversion and/or to the Holders;

(c) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the ordinary shares of Newco are:

(i) admitted to the Relevant Stock Exchange; or

(ii) listed and/or admitted to trading on another Recognised Stock Exchange,

and the Holders irrevocably authorise the Bank to make such amendments to these Conditions;

(d) issue, allot and deliver Ordinary Shares upon Trigger Conversion subject to and as provided in Condition 6;

(e) use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares and any Ordinary Shares issued upon Trigger Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;

(f) at all times keep in force the relevant resolutions needed for issue, free from pre-emptive rights, sufficient authorised but unissued Ordinary Shares to enable Trigger Conversion of the Preferred Securities, and all rights of subscription and exchange for Ordinary Shares, to be satisfied in full; and

(g) where the provisions of Condition 6 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, use all reasonable endeavours promptly to appoint such person for such purpose.

11. MEETINGS OF HOLDERS

(a) (i) The Bank may at any time and, if required in writing by Holders holding not less than 10 per cent. in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall 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. Whenever the Bank is about to convene any meeting it shall immediately give notice in writing to the Principal Paying Agent of the day, time and place of the meeting and the nature of the business to be transacted at the meeting. Every meeting shall be held at a time and place approved by the Principal Paying Agent.

(ii) 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 14. 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 (A) specify the terms of the Extraordinary Resolution to be proposed or (B) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, provided that, in the case of (B), 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 Principal Paying Agent, provided that, in the case of (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).

(iii) 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.

(iv) At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 11(a)(iii)) shall be transacted at any meeting unless the required quorum is present at the commencement of business. 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 Liquidation Preference of the Preferred Securities for the time being outstanding provided that 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):

(A) a reduction or cancellation of the Liquidation Preference of the Preferred Securities; or

(B) without prejudice to the provisions of Condition 4 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction or cancellation of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or

(C) a modification of the currency in which payments under the Preferred Securities are to be made; or

(D) a modification of the majority required to pass an Extraordinary Resolution; or

(E) the sanctioning of any scheme or proposal described in Condition 11(b)(viii)(F) below; or

(F) alteration of this proviso or the proviso to Condition 11(a)(v) below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

(v) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 11(a)(i), be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Principal Paying Agent). 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 Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.

(vi) At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 11(a)(iv) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

(vii) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 11(a)(ii) 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.

(b) (i) 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.

(ii) 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 Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(iii) Subject to Condition 11(b)(v) 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 at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

(iv) 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.

(v) 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.

(vi) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the proviso to the definition of **outstanding** in the Agency Agreement, 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.

(vii) Subject as provided in Condition 11(b)(vi), at any meeting:

(A) on a show of hands every Eligible Person present shall have one vote; and

(B) on a poll every Eligible Person present shall have one vote in respect of each €1.00 or such other amount as the Principal Paying Agent shall in its absolute discretion specify in Liquidation Preference of the Preferred Securities in respect of which he is an Eligible Person.

(viii) A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 11(a)(iv) and 11(a)(vi)), namely:

(A) power to approve any compromise or arrangement proposed to be made between the Bank and the Holders;

(B) 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 the Agency Agreement, these Conditions or the Preferred Securities or otherwise;

(C) power to agree to any modification of the provisions contained in the Agency Agreement, these Conditions or the Preferred Securities, which is proposed by the Bank;

(D) power to give any authority or approval which under the provisions of this Condition 11 or the Preferred Securities is required to be given by Extraordinary Resolution;

(E) 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;

(F) power to approve any scheme or proposal for the exchange or sale of the Preferred Securities for, or the conversion of the Preferred Securities into, or the cancellation of the Preferred Securities in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Bank or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash; and

(G) power to approve the substitution of any entity in place of the Bank (or any previous substitute) as the principal debtor in respect of the Preferred Securities.

(ix) 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 14 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

(x) The expression **Extraordinary Resolution** when used in this Condition 11 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll.

(xi) Subject to Condition 11(b)(i), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11 a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

(xii) 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.

(xiii) 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.

(xiv) The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit. Notice of any such regulations may be given to Holders in accordance with Condition 14 and/or at the time of service of any notice convening a meeting.

12. MODIFICATION

The Principal Paying Agent and the Bank may agree, without the consent of the Holders, to any modification of the Preferred Securities or the Agency Agreement which is, in the sole opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law, provided any such modification of the Preferred Securities or the Agency Agreement is not materially prejudicial to the Holders.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 14 as soon as practicable thereafter.

13. TAXATION

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

(b) The Bank shall not be required to pay any Additional Amounts in relation to any payment in respect of Preferred Securities:

(i) presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than (A) the mere holding of Preferred Securities or (B) the receipt of any payment in respect of Preferred Securities; or

(ii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such an Additional Amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day; or

(iii) presented for payment by or on behalf of a Holder who does not provide to the Bank or an agent acting on behalf of the Bank the information concerning such Holder as may be required in order to comply with any procedures that may be implemented to comply with any interpretation of Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July eventually made by the Spanish tax authorities;

Notwithstanding any other provision of these Conditions, any amounts to be paid by the Bank on the Preferred Securities will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (**FATCA**) or any law implementing an intergovernmental approach to FATCA (such withholding or deduction, **FATCA Withholding**). Neither the Bank nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

For the purposes of this Condition 13, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 14 below.

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

14. NOTICES

Notices to the Holders, including notice of any redemption of Preferred Securities, will be valid if mailed by first class mail or (if posted to an address overseas) by airmail to the Holders (or to the first of any joint named Holders) at their respective addresses in the register of Holders maintained by the Registrar. The Bank shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other Competent Authority on which the Preferred Securities are for the time being listed.

Any such notice will be deemed to have been given on the fourth day after being so mailed or on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

There may, so long as any global preferred securities representing the Preferred Securities are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such mailing of notices the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Holders except that, for so long as any Preferred Securities are listed on a stock exchange or admitted to listing by another Competent Authority and the rules and regulations of that stock exchange or Competent Authority so require, such notice will be published in a manner that complies with those rules and regulations. Any such notice shall be deemed to have been given to the Holders on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

15. AGENTS

In acting under the Agency Agreement and in connection with the Preferred Securities, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Principal Paying Agent, a successor agent bank and additional or successor Principal Paying Agents; provided, however, that the Bank will maintain a Principal Paying Agent and an Agent Bank.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Holders.

16. PRESCRIPTION

To the extent that Article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

17. GOVERNING LAW AND JURISDICTION

(a) The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

(b) The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it

may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law, nothing contained in this Condition 17 shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

The net proceeds of the issue of the Preferred Securities will be used for the general corporate purposes of Bankia.

CAPITAL ADEQUACY

Capital Adequacy of the Group

The following table sets forth details of the risk weighted assets, capital and ratios of the Group:

	As of		
	30 June 2018[3]	**31 Dec 2017**[3]	**31 Dec 2016**[3]
	(€ million except percentages)		
Common equity tier 1 ratio (%) [1]	14.01%	14.15%	15.08%
Tier 1 ratio (%) [1]	14.91%	14.94%	15.08%
Total capital ratio (%) [1]	17.18%	16.84%	16.42%
Total risk-weighted assets [2]	83,634	86,041	76,959

The table below sets forth the distance to Trigger Event of the Group:

	As of 30 June 2018
	(€ million)
Distance to Trigger Event [4]	7,433

The table below sets forth the distance to the Maximum Distributable Amount (MDA) level of the Group:

	As of 30 June 2018
	(€ million except percentages)
CET-1 MDA level (Pillar 1 +Pillar 2 + buffers)	8.56%
CET-1 distance to the MDA level [5]	4,559
Total capital MDA level (Pillar 1 +Pillar 2 + buffers)	12.06%
Total capital distance to the MDA level [5]	4,284

Notes:

(1) Regulatory ratios calculated in accordance with CRR and CRD IV requirements as of applying a 100 per cent., 80 per cent. and 60 per cent. phased-in as of 30 June 2018, 31 December 2017 and 31 December 2016, respectively (except for DTAs generated before 31/12/2013 that rely on future profitability with a phased-in of 40 per cent., 30 per cent. and 20 per cent. in 2018, 2017 and 2016, respectively).

(2) Calculated in accordance with CRR an CRD IV.

(3) Solvency ratios include the amount of net profit earmarked for reserves obtained in each period after deducting distributed dividends.

(4) The distance to the Trigger Event reflects the amount by which CET1 exceeds the level of the Trigger Event applicable to the Preferred Securities (being a CET1 ratio less than 5.125 per cent.).

(5) The distance to MDA level reflects the amount by which CET1 or total capital exceeds the MDA level, defined as the sum of the Pillar 1 requirement, Pillar 2 requirement and capital buffers (as at 30 June 2018, 8.56 per cent. for CET1 and 12.06 per cent. for total capital).

Capital Adequacy of the Bank

The following table sets forth details of the risk weighted assets, capital and ratios of the Bank:

	As of		
	30 June 2018[3]	**31 Dec 2017**[3]	**31 Dec 2016**[3]
	(€ million except percentages)		
Common equity tier 1 ratio (%) [1]	12.84%	13.53%	13.69%
Tier 1 ratio (%) [1]	13.70%	14.37%	13.69%
Total capital ratio (%) [1]	15.87%	16.29%	14.96%
Total risk-weighted assets [2]	87,578	84,956	79,999

The table below sets forth the distance to Trigger Event of the Bank:

	As of 30 June 2018
	(€ million)
Distance to Trigger Event [4]	6,754

The table below sets forth the distance to the MDA level of the Bank:

	As of 30 June 2018
	(€ million except percentages)
CET-1 MDA level (Pillar I+ buffers)	6.56%
CET-1 distance to the MDA level [5]	5,495
Total capital MDA level (Pillar I+ buffers)	10.06%
Total capital distance to the MDA level [5]	5,082

Notes

(1) Regulatory ratios calculated in accordance with CRR and CRD IV requirements as of applying a 100 per cent., 80 per cent. and 60 per cent. phased-in as of 30 June 2018, 31 December 2017 and 31 December 2016, respectively (except for DTAs generated before 31/12/2013 that rely on future profitability with a phased-in of 40 per cent., 30 per cent. and 20 per cent. in 2018, 2017 and 2016, respectively).

(2) Calculated in accordance with CRR an CRD IV

(3) Solvency ratios include the amount of net profit earmarked for reserves obtained in each period after deducting distributed dividends.

(4) The distance to the Trigger Event reflects the amount by which CET1 exceeds the level of the Trigger Event applicable to the Preferred Securities (being a CET1 ratio less than 5.125 per cent.).

(5) The distance to MDA level reflects the amount by which CET1 or total capital exceeds the MDA level, defined as the sum of the Pillar 1 requirement and capital buffers (as at 30 June 2018, 6.56 per cent. for CET1 and 10.06 per cent. for total capital). Bankia is not subject, on an individual basis to Pilar 2 requirement (2 per cent. on a consolidated basis).

DESCRIPTION OF THE ISSUER AND ITS GROUP

History and Development of the Issuer

The Issuer is a Spanish company with legal status as a public limited company (*sociedad anónima*), with the status of a bank and is governed by the Restated Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*). The Issuer is subject to special legislation for credit institutions in general, the supervision, control and regulation of the ECB and, as a listed company, the regulatory supervision of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (the **CNMV**) and, as a credit institution, to Law 10/2014. Also, as a credit institution in the process of restructuring, the Issuer is subject to Law 11/2015. The Issuer has its registered office in the city of Valencia, at Calle Pintor Sorolla 8, (contact telephone number +34 91 787 75 75). The Issuer is registered in the Commercial Registry of Valencia in volume 9341, book 6,623, folio 104, page V-17274, 183rd entry, and in the Special Registry of Banks and Bankers of the Bank of Spain (*Banco de España*) under number 2038 with Legal Entity Idenfitier (L.E.I.) code 549300685QG7DJS55M76.

The Issuer was incorporated for an indefinite period under the corporate name Banco de Córdoba, S.A. in a public deed executed on 5 December 1963, amended by subsequent deeds (which changed the name and amended the bylaws) and changed its registered company name to Altae Banco, S.A. in a deed executed on 10 July 1995. On 29 April 2011, the Issuer's name was changed to Bankia, S.A.

Bankia's corporate purpose includes all activities, operations, acts, contracts and services related to the banking sector in general or directly or indirectly related thereto, permitted by current legislation, including the provision of investment services and ancillary services and performance of the activities of an insurance agency.

The Bankia Group was formed as a result of a Spanish law which governed the process of integration that ended on 23 May 2011, involving Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros de Valencia, Castellón y Alicante, Caja Insular de Ahorros de Canarias, Caja de Ahorros y Monte de Piedad de Ávila, Caixa d'Estalvis Laietana, Caja de Ahorros y Monte de Piedad de Segovia and Caja de Ahorros de La Rioja (collectively, the **Cajas**).

This process of integration was implemented in two phases: (i) initially, the Cajas spun off all of their banking and quasi-banking assets and liabilities (the **First Spinoff**) to Bankia's parent company, BFA, which, in turn, (ii) spun off to Bankia all of its banking business, the investments associated with the financial business and the other assets and liabilities it received from the Cajas by virtue of the First Spinoff or otherwise under an integration agreement of 30 July 2010 signed by the Cajas (the **Integration Agreement**), excluding certain assets and liabilities that continued to be owned by BFA.

On 29 June 2011, Bankia registered a prospectus with the CNMV for a public offering and admission to trading of its shares. Bankia's shares began trading on the Spanish stock exchanges through the Stock Exchange Interconnection System (*Sistema de Interconexión Bursátil*) on 20 July 2011.

Acquisition by the FROB of a stake in BFA and request for state aid

On 28 December 2010, the FROB subscribed for €4.5 billion of convertible preferred participating securities (*participaciones preferentes convertibles*) (**PPCs**) issued by BFA. On 27 June 2012, following the submission by the Board of Directors of BFA of a request to the FROB for conversion of the PPCs into shares of BFA, the authorisation of the conversion by the European Commission and the necessary valuation process, the PPCs were converted into shares and the FROB became the sole shareholder of BFA.

On 23 May 2012, BFA notified the Bank of Spain and the Ministry of Economy and Competitiveness of its intention to request a capital contribution of €19 billion from the FROB. On 12 September 2012, BFA received a capital injection of €4.5 billion as an advance for the purpose of re-establishing the BFA-Bankia Group's solvency levels. On the same day, in order to continue the process of strengthening Bankia's regulatory capital, BFA and Bankia entered into an agreement for a subordinated loan of €4.5 billion as a contribution of capital to Bankia.

Restructuring Plan

On 20 July 2012, Spain and the European Union signed a Memorandum of Understanding on Financial-Sector Policy Conditionality (the **MoU**), which set out the conditions imposed on Spain regarding specific measures to reinforce financial stability in the context of the European Union's approval of a line of credit of up to €100 billion for the FROB to recapitalise the Spanish financial system. In November 2012, Law 9/2012 which replaced Royal Decree Law 24/2012 of 31 August on restructuring and resolution of credit institutions, was published and partially implemented the requirements established in the MoU. It regulated the early action, restructuring and resolution processes for credit institutions and established the legal regime and action framework governing the FROB's operations.

Pursuant to Law 9/2012, the BFA-Bankia Group submitted to the FROB and to the Bank of Spain a restructuring plan (the **Restructuring Plan**), which was approved by the Bank of Spain, the FROB and the European Commission on 28 November 2012. The Restructuring Plan resulted in a capital injection of €13.5 billion by the FROB for the BFA-Bankia Group, in addition to the €4.5 billion subordinated loan already advanced by BFA in September 2012.

These aid measures were authorised on the basis of the commitments made in the Restructuring Plan, which were fulfiled during the 2012-2017 period (the **Restructuring Period**) the most important of which were: (i) a reduction of Bankia's total assets through the transfer of certain assets to the Asset Management Company for Assets Arising from Bank Restructuring (*Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria*) (**SAREB**) to reduce its real estate risk; (ii) a concentration of its business on commercial banking; (iii) a reduction of capacity (branches and staff) and the sale or liquidation of certain subsidiaries and holdings; (iv) the execution of hybrid instruments' management measures; and (v) an abstaining from real estate finance, funding of companies located outside Spain, or provision of banking services to companies that have an access to capital markets.

Merger with BMN

On 15 March 2017 the FROB announced and communicated to Bankia that its Governing Committee agreed that a merger between Bankia and Banco Mare Nostrum. S.A. (**BMN**) was the best strategy to optimise the recovery of public funds through a future divestment process, meaning that both institutions should initiate the corresponding actions, as appropriate. In light of such communication, the merger between Bankia and BMN was approved by the two companies' Shareholders' General Meetings on 14 September 2017 and effectively completed in January 2018 with accounting effect as from 1 December 2017.

In accordance with the merger project approved by the boards of directors of Bankia and BMN, the merger exchange ratio was one Bankia share of one euro par value, for every 7.82987 BMN shares, without any additional cash compensation. As a result of the merger, Bankia issued 205,630,814 new ordinary shares which were allocated to BMN shareholders.

Completion of Restructuring Plan and new Strategic Plan

By the end of 2017, the BFA-Bankia Group had achieved all targets contemplated in its Restructuring Plan. The Restructuring Plan limited, among other things, inorganic growth and non-retail banking. These restrictions were lifted after the Restructuring Plan was completed in January 2018.

On 22 February 2018, the board of directors of Bankia approved new strategic plan (the **Strategic Plan**) for the period 2018-2020. The main drivers of the Strategic Plan are:

- full commercial integration of BMN by unifiying commercial management, consolidating into a single network and consistent customer service;
- efficiency and cost control leveraging BMN integration synergies;
- revenue growth through increased sale of high value products including new lending (quality mortgages, SME lending and consumer loans) and fee driven products (mutual funds, payment services and insurance); and
- accelerated reduction of non-performing assets, whilst maintaining high coverage levels.

The Bank has set the following financial targets by 2020:

- return on tangible equity of 11 per cent. (based on a CET1 target ratio of 12 per cent.);

- cost to income ratio below 47 per cent.;
- non-performing assets as a percentage of total assets below 6 per cent.;
- CET1 fully loaded ratio of at least 12 per cent.;
- ordinary cash pay-out ratio of 45-50 per cent.; and
- additional capital actions will be also considered when CET1 fully loaded ratio is above 12 per cent. target.

Organisational Structure

Bankia is the parent company of the Bankia Group and in addition is a controlled company in the BFA-Bankia Group, a consolidated group of credit institutions, the controlling company of which is BFA.

At 30 June 2018, the Bankia Group was a consolidated group comprised of 78 companies, of which 40 were subsidiaries, 26 associates and 12 joint ventures. They are engaged in diverse activities, including insurance, asset management, financing, services and real estate asset promotion and management. The group of companies classified as non-current assets held for sale as at 30 June 2018 amounted to a total of 31 companies.

The following diagram shows Bankia's principal subsidiaries, their principal activities and Bankia's ownership interest in those subsidiaries as of the date of this Offering Circular:

FINANCIAL INSTITUTIONS	INTERNATIONAL FINANCIAL INSTITUTIONS	INDUSTRIAL PORTFOLIO	INSURANCE	REAL ESTATE
Bankia Pensiones, S.A. E.G.F.P. (100%)	Corp. Financiera Habana, S.A. (60%)	Arrendadora Aeronáutica, A.I.E. (68.17%)	Bankia Mediación Operador de Banca Seguros Vinculado, S.A.U. (100%)	Bankia Habitat, S.L.U. (100%)
Bankia Fondos, S.G.I.I.C., S.A. (100%)		Corporación Empresarial Mare Nostrum, S.L. (100%)	Bankia Mapfre Vida, S.A., de Seguros y Reaseguros (49%)	Puertas de Lorca Desarrollos Empresariales, S.L.U. (100%)
Avalmadrid, S.G.R. (25.52%)			Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. (100%) [(1)]	Innostrum División Inmobiliaria, S.L.U. (100%)
			Caja Murcia Vida y Pensiones de Seguros y Reaseguros, S.A. (100%) [(1)]	
			BMN Mediación Operador de Banca-Seguros Vinculado, S.L.U. (100%)	
			BMN Brokers Correduría de Seguros, S.AU. (100%)	

Business Description

Bankia is one of the most important domestic financial institutions which provide banking and financial products and services in Spain. As described below, the Group's business segments are: (i) Retail Banking; (ii) Business Banking; and (iii) Corporate Centre.

As at 30 June 2018, at a consolidated level, the Group's branch network in Spain consisted of 2,284 retail and corporate branches (2,402 at the end of December 2017).

1. Retail Banking

This segment is the Group's core business and includes retail banking services provided to individuals, small businesses (with annual sales of up to €6 million) and the self-employed, applying a universal banking model. Its main objective is to build customer loyalty and increase customer retention offering value-adding products and services, reliable advice and quality service through a broad multi-channel network in Spain.

To support this strategy, the Bank has various types of branches, including (i) universal banking branches; (ii) Agile Branches (with extended opening hours and intended mainly for quick transactions and inquiries); (iii) Plus+ Branches (specialising in advice); and (iv) the "*Conecta con tu Experto*" service (providing advice to digital customers).

a. Individuals and SMEs

In the Retail Banking segment the strategy involves specialising in five different customer profiles or units:

- *Private individuals:* Bankia offers to its individual customers a wide range of services, which include traditional banking services such as credit and debit card services, current and savings accounts, demand and term deposits, lending and mortgage services, broker services, portfolio management, mutual funds and pension funds, and risk and saving insurance.
- *High potential:* each account manager in this segment has responsibility for a portfolio of high potential customers, whose business with the Bank is likely to grow and who may become Personal Banking customers in the future. Work with the High Potential customer profile began in 2015 throughout the commercial network.
- *Personal Banking:* under this unit Bankia provides a personalised service through specialised personal account managers, who are assigned exclusively to serving and advising customers in this segment. This service is intended for customers with a net worth of more than €75,000 or an annual net income of more than €45,000, and includes specialised financial advice available throughout Retail Banking's branch network.
- *Private Banking*: this unit provides services for high net worth customers who demand top-quality financial and tax advice. Bankia offers these customers a comprehensive range of products and services with highly personalised, professional and reliable treatment, providing them with solutions that are tailored to their financial or tax needs.
- *SMEs and Micro-enterprises:* Retail Banking serves small and medium enterprises (companies with annual turnover of under €6 million (**SMEs**)). Branches that have a large number of such customers have specialised sales staff to offer advice and specific products to customers in this segment, as well as services for independent contractors in their capacity as business owners. The main products for these customers are financing for investment projects, treasury management, tax advising, business insurance and ICO (*Instituto de Crédito Oficial*) loans.

The Bank is currently enhancing its digital transformation with the aim of attending the increasing banking services demand coming from non-traditional channels. Within this idea, the Bank has developed a personalised advisory service called *"Conecta con tu Experto"*, providing banking and advisory services to approximately 608,000 users by the end of June 2018. On 30 June 2018, digital customers represented 40.9 per cent. of the Bank's total customers whilst digital sales stood at 16.8 per cent. of the Group's total sales (15.9 per cent. in December 2017 before the merger with BMN).

In line with the Bank's aim of strengthening the consumer finance segment, further developments have been made pursuant the agreement dated 28 May 2018 between Bankia and Crédit Agricole, the latter through its subsidiary Crédit Agricole Consumer Finance, for the creation of a joint venture through which the two entities will begin to jointly operate in the consumer finance segment in Spain in the near future. The new company, which requires the go-ahead from the regulatory and supervisory authorities, will be 51 per cent. owned by Crédit Agricole Consumer Finance and 49 per cent. by Bankia, and will specialise in the provision of point-of-sale consumer financing through non-banking channels. To this end, Bankia and Crédit Agricole Consumer Finance will work together to strike distribution

agreements with both brick-and-mortar and online retailers. The products to be marketed by this new company will notably include personal and consumer loans, leases of consumer goods, revolving credit lines and loyalty cards.

b. Asset Management

Bankia's Asset Management business encompasses the management and administration of investment funds and pension plans. At 30 June 2018, Bankia had more than €28,000 million of assets under management in mutual funds and pension plans (more than €27,300 at 31 December 2017).

Bankia Fondos S.G.I.I.C., S.A. (Bankia Fondos), an entity wholly owned by Bankia, manages, administers and designs a single catalogue of funds for the entire Bankia branch network. At 30 June 2018, Bankia Fondos had €19,993 million of mutual funds distributed to clients compared to €19,205 million at the end of 2017 (up 4.10 per cent.). According to the Spanish Investment and Pension Fund Association Inverco, Bankia Fondos ranked forth among Spanish fund managers, with a 6.42 per cent. market share in June 2018, compared to 6.38 per cent. at the end of 2017.

Bankia Pensiones, S.A., E.G.F.P., a wholly owned subsidiary of Bankia, is the Group's pension fund management company. It is responsible for managing the different types of pension plans: individual plans, employer pension plans and associated plans. Management is conducted with a view to satisfying the customers' needs and offering products adapted to their investment profile and a time horizon based on their retirement age. At 30 June 2018 Bankia had €7,951 million in personal, employer and associated pension plans (€8,082 million at 31 December 2017).

c. Bancassurance

On 31 January 2014, Bankia reached an agreement with Mapfre for the restructuring of its Bancassurance business unit whereby Mapfre agreed to become the exclusive supplier of life and non-life insurance for Bankia, unifying the distribution of insurance products throughout Bankia's commercial network. The Bancassurance division is responsible for brokering insurance for individuals (life, home, health, auto, etc.) and businesses (retailers, third party liability, credit, etc.), as well as savings insurance. The insurance distribution network therefore currently relies primarily on the traditional branches, although the penetration of the insurance activity in the Bank's other channels (public website, multi-channel account managers, etc.) is becoming more extended.

On 22 February 2018, the Bank reached an agreement with Ahorro Andaluz, S.A. and Aviva Europe, S.A. for the acquisition of 50 per cent. of the share capital of Caja Granada Vida Comapañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. The acquisition was completed on 10 July 2018, once the competiton and regulatory approvals were obtained. After this acquisition, which is part of the Bancassurance business reorganisation process that was started after the merger with BMN, the Bank is the sole shareholder of the two companies, thus ending the alliances with Aviva Europe, S.E.

Net written premiums amounted to €343 million in 2017, with an annual increase of 3 per cent. in new production compared to 2016. At 31 December 2017, a total of 1.9 million policies were in force. The mathematical provisions for life savings insurance totalled €4,986 million at that date. 73 per cent. of new production in 2017 was concentrated in the life and home businesses, with significant growth also in the SMEs business, which was up 36 per cent. compared to 2016. In the first half of 2018 Net written premiums amounted to €275 million and the mathematical provisions for life savings insurance amounted to €6,363 million during the same.

2. Business Banking

The Business Banking segment offers a specialised service aimed at legal entities with annual turnover above €6 million, as well as the Capital Markets activity. Personal customers, companies and independent contractors with revenues below this threshold are served by the Retail Banking segment. The Business Banking segment is divided into three main areas: SME Banking, focusing on small and medium enterprises with revenues from €6 million to €300 million; Corporate Banking, providing specialised banking services to enterprises with more than €300 million in revenues); and Capital Markets, which provides trading in derivatives, financial advisory, loan and special finance origination, fixed-income origination and trading, and distribution of fixed-income products to the network.

Bankia is one of the top competitors in business banking, with a customer base of more than 22,000 active business customers. The customer base of Bankia's Business Banking segment is diversified across various sectors of the

economy, with commerce, industry and services accounting for the bulk of the portfolio (47.8 per cent. as at 30 June 2018), followed by construction, utilities and food.

Branches classified as "Company Branches (*sucursal*)" are established in towns and cities with a sufficient critical mass of customers. Markets that lack the necessary critical mass are served by specialised account managers assigned to Retail Banking branches and overseen by the nearest Company Branch. As at 30 June 2018, Bankia had 45 Business Centres throughout Spain (43 Business Centres at the end of December 2017).

The Corporate Banking segment is made up of Bankia's largest accounts. The similarities of these large accounts are the size of the companies, the international nature of their businesses and the greater complexity and sophistication of their financial needs. These customers are served from three main hubs (Madrid, Barcelona and Palma de Mallorca, the latter one focused on companies of the hotel industry), staffed by teams of account managers, each specialising in a particular industry or sector.

3. Corporate Centre

The Corporate Centre includes all of the businesses and activities other than Retail Banking and Business Banking segments, including, among others, investees and assets or portfolios classified as non-current assets held for sale.

Investees

Bankia has a diverse portfolio of investees, including subsidiaries, as well as associates and jointly-controlled entities. Disposals of non-core investees are carried out at all times in an orderly manner, after carefully weighing all available options and choosing those that offer the highest return.

Foreclosed assets

The BFA-Bankia Group manages, administer and sells its real estate assets -including those related to BMN since April 2018- through Haya Real Estate (**HRE**), whose mission is to dispose of the assets with the least possible impact on accounts. HRE handles technical maintenance, aimed at preserving the assets in optimal conditions, and sales-related activities (advertising, presence at events, relations with property agents, customer service, etc.). In 2016 the bank created the Property Management Directorate, which brings together the many functions that previously had been carried out by other areas. The creation of this unit brought greater efficiency and increased visibility of the portfolio as a whole, not only in terms of the physical properties but also in terms of their availability, limitations and encumbrances. The directorate coordinates sales through all channels, therefore also through the Group's commercial network, and prepares packages of assets for placement outside the retail circuit.

Financial Overview

Note about comparative information

The merger between Bankia and BMN was carried out with effect for accounting purposes from 1 December 2017. Therefore, the Bankia Group's balance sheet at the end of 2017 includes the assets and liabilities contributed by BMN in the merger process. The income statement for 2017 only included BMN's earnings for December. As a result, the merger with BMN impacted the changes in balance sheet totals at the end of 2017, whereas its impact on the consolidated income statement mainly entailed non-recurring restructuring costs incurred in December (€445 million included in staff expenses). BMN's contribution to the 2017 income statement from 1 December 2017 was therefore not material. Additionally, the merger between Bankia and BMN also impacts the comparison between the income statement totals for the first semester of 2018, that includes BMN's contribution, and the first semester of 2017, which does not include BMN’s results.

To provide comparative financial information with financial year ended 31 December 2016, in addition to year-end balance sheet and consolidated income statement for 2017, the management report that complements the audited financial statements as of 31 December 2017, which is incorporated by reference in this Offering Circular, includes a balance sheet and income statement for 2017 excluding the impacts of the integration of BMN.

Comments below on the most significant trends in the Group's main balance sheet and income statement items include explanations where the impact of the merger on the balance sheet and income statement is material for certain items, noting in these cases the performance relative to 2016 or the first semester of 2017 on a same-scope basis.

Income and Expenses

The following table sets out information on income, expenses and profits of the Group for the first semester of 2018 and 2017 and the financial years ended 31 December 2017 and 2016:

INCOME STATEMENT - BANKIA GROUP	(€ million)		(€ million)	
	1S 2018	1S 2017	2017	2016
NET INTEREST INCOME	**1,047**	**995**	**1,968**	**2,148**
Dividend income	8	7	9	4
Share of profit/(loss) of companies using the equity method	29	18	40	38
Total net fees and commissions	534	425	864	824
Gain and losses on financial assets and liabilities	291	262	367	241
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss (net)	270	217	310	253
Gains or losses on financial assets and liabilities held for trading (net)	34	60	87	42
Gains or losses from hedge accounting (net)	(13)	(15)	(30)	(54)
Exchange differences	6	4	10	13
Other operating income and other operating expenses (net)	(74)	(65)	(194)	(102)
GROSS INCOME	**1,841**	**1,648**	**3,064**	**3,166**
Administrative expenses	(856)	(681)	(1,852)	(1,387)
Staff expenses	(596)	(461)	(1,390)	(907)
Other administrative expenses	(260)	(220)	(462)	(480)
Depreciation	(88)	(83)	(174)	(161)
Provisions or reversal of provisions	36	3	34	(96)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss or net gains or losses by modification	(208)	(174)	(329)	(221)
TOTAL OPERATING INCOME (NET)	**726**	**712**	**744**	**1,301**
Impairment or reversal of impairment on non-financial assets, investments in subsidiaries, joint ventures and associates	32	(9)	(14)	(8)
Other gains and losses (net)	(76)	(10)	(106)	(302)
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**681**	**693**	**625**	**991**
Tax expense or income related to profit or loss from continuing operations	(166)	(179)	(131)	(189)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**515**	**514**	**494**	**802**
Profit or loss after tax from discontinued operations	-	-	-	-
PROFIT OR LOSS	**515**	**514**	**494**	**802**
Profit or loss attributable to minority interest	-	-	(11)	(2)
PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**515**	**514**	**505**	**804**

- ***First semester results***

In the first semester of 2018 the Group obtained an attributable profit of €515 million, almost the same figure reported in the fisrst half of 2017 (€ 514 million). The integration with BMN, coupled with growth in fee and commission income, active cost management and careful monitoring of the cost of risk were the main profit drivers in the period, offsetting the impact on net interest income of lower earnings on fixed-income securities, maturities and repricings of the mortgage portfolio, and the drop in non-recuring income from the sale of equity stakes.

Net interest income in the first semester of 2018 amounted to €1,047 million, representing an increase of 5.3 per cent. compared to the first semester of 2017. This increase was due to the merger with BMN. On a same scope basis (i.e., including BMN results in the first semester of 2017), the Group's net interest income would have decreased by 9.8 per cent. due to a lower yield of the fixed income portfolios following the sales and portfolio rotation carried out in 2017 and the first half of 2018 and repricing of loan portfolios (mainly mortgages) caused by the fall in the EURIBOR rate.

Net fee and commission income performed well in the first semester of the year, reaching a total of €534 million, compared to €425 million in the first semester of 2017 representing an increase of 25.6 per cent. This increase resulted from the full integration of BMN and the sound performance of the retail banking on the back of increased collection and payment services activity and commercialisation of investment funds and insurance products. On a same-scope basis (i.e., incorporating BMN results in the first semester of 2017), net fee and commission income in the first semester of 2018 would have increased by 1.4 per cent. compared to the first semester of 2017.

Gains on financial assets and liabilities increased by €29 million and totalled €291 million in the first semester of 2018. This increase was due to higher gains on sales of fixed-income securities carried out by the Group in anticipation of the foreseeable trend in market interest rates. If BMN's results had been included in the first half of 2017, net trading income would have been down 6.4 per cent. compared to the first semester of 2017.

Due to the reasons described above, the Group's gross income in the first semester of 2018 increased by 11.8 per cent to €1,841 million compared to the first semester of 2017. On a same-scope basis (i.e., incorporating BMN results in the first semester of 2017), gross income would have decreased by €150 million or 7.5 per cent. compared to the first semester of 2017.

Operating expenses (administrative expenses and depreciation) increased by 23.6 per cent. in the first semester of 2018 to €944 million compared to the first semester of 2017 due to the full integration of BMN results. On a same-scope basis (i.e., incorporating BMN results in the first semester of 2017), the Group's operating expenses would have decreased by 1.7 per cent. compared with the first half of 2017, as the first synergies from the merger with BMN began to materialise in April 2018, mainly those related to the workforce restructuring.

Total provisions and impairments of the Group decreased by €41 million compared to the first semester of 2017 to €140 million. This was achieved despite the integration of BMN's loan portfolio of over €20,000 million, reflecting the Group's on-going improvements in risk management and asset quality.

Other gains and other losses totaled a negative figure of €76 million in the first half of 2018, representing an increase of €66 million from the €10 million loss in the first semester of 2017. These gains and losses include impairments and results from sale of equity investments and foreclosed assets, as well as the selling and maintenance costs of foreclosed properties. The increase of the net loss in the first half of 2018 compared to the same period in 2017 was due to the gain from the deferred payment on the sale of Globalvia obtained in the first semester of 2017.

The performance of the above items brought the Group's attributable profit for the half-yer ending June 2018 to €515 million, which is in line with the attributable profit of €514 million reported by the Group in the first semester of 2017.

- ***Annual results***

In 2017 Bankia Group's profit attributable to owners decreased by 37.3 per cent. to €505 million compared to 2016 due to non-recurring staff costs arising from the integration of BMN of €445 million recognised in December 2017. On a same-scope basis (i.e., incorporating BMN results in 2017), Bankia would have obtained a net attributable profit of €816 million representing an increase of 1.4 per cent. in 2017 compared to 2016.

In 2017, Bankia Group's net interest income amounted to €1,968 million, representing a decrease of €180 million or 8.4 per cent. compared to 2016 due to the low interest rate environment and the drop in fixed-income portfolios yields caused by lower pricing of SAREB and Spanish sovereign bonds.

Net fees and commissions totalled €864 million in 2017, representing an increase of €40 million or 4.9 per cent. compared to 2016. This increase was primarily due to the growth of fees and commissions from investment funds and insurance products, collection services, contingent liabilities, structuring and design of financing operations on the back of increased activity and stronger customer loyalty.

In 2017 gains on financial assets and liabilities increased by 52.3 per cent. to €367 million compared to 2016 due to gains obtained on fixed-income sales.

Other operating expenses increased by 90.2 per cent. to €194 million in 2017 compared to 2016 due to a gain on the sale of Visa Europe of €58 million, lower income generated from leased property in 2017 and the increased contribution to the deposit guarantee fund in 2017.

As a result of the above, the Group's gross income decreased by 3.2 per cent. from €3,166 million in 2016 to €3,064 million in 2017.

Administrative expenses increased by 33.6 per cent. to €1,852 million compared to 2016 as a result of the non-recurring staff costs arising from the integration with BMN (€445 million). On a same-scope basis (i.e., excluding the 2017 staff costs arising from the integration with BMN), administrative expenses would have remained in line with 2016.

Impairments and provisions decreased by 5.6 per cent. in 2017 compared to 2016 due to the focus on the credit quality of assets.

Other losses decreased by 64.9 per cent. to €106 million in 2017 compared to 2016 due to the €47 million gain in 2017 from the deferred payment on the sale of Globalvia and additional allowances for foreclosed assets.

As a result of the above, the Group had attributed profit of €505 million in 2017 compared to €804 million in 2016.

Assets and liabilities

As at 30 June 2018, the Group had total assets of €208,208 million compared to €213,932 million as at 31 December 2017 and €190,167 million as at 31 December 2016, and liabilities of €195,000 million compared to €200,319 million as at 31 December 2017 and €177,330 million as at 31 December 2016.

The following table sets forth selected information on assets and liabilities of the Group as at 30 June 2018, 31 December 2017 and 31 December 2016:

BALANCE SHEET - BANKIA GROUP	(€ million)		
	30 June 2018	**31 December 2017 (1)**	**31 December 2016 (1)**
Cash, cash balances at central banks and other demand deposits	2,518	4,504	2,854
Financial assets held for trading	6,271	6,773	8,331
Derivatives	6,151	6,698	8,256
Equity instruments	4	74	71
Debt securities	116	2	5
Financial assets not held for trading mandatorily designated at fair value through profit or loss	9	-	-
Loans and advances to customers	9	-	-
Financial assets designated at fair value through other comprehensive income	17,873	22,745	25,249
Equity instruments	74	71	26
Debt securities	17,799	22,674	25,223
Financial assets measured at amortised cost	161,105	158,711	136,509
Debt securities	34,803	32,658	28,254
Loans and advances	126,302	126,053	108,254
Loans and advances to credit institutions	4,776	3,028	3,578
Loans and advances to customers	121,526	123,025	104,677
Derivatives - Hedge accounting	2,558	3,067	3,631
Investments in joint ventures and associates	342	321	282
Tangible and intangible assets	2,626	2,661	1,878
Non-current assets and disposal groups classified as held for sale	2,867	3,271	2,260
Tax assets	10,943	11,005	8,320
Deferred tax assets	10,653	10,530	7,963
Current tax assets	289	475	357
Other assets	1,095	874	854
TOTAL ASSETS	**208,208**	**213,932**	**190,167**
Financial liabilities held for trading	6,669	7,421	8,983
Derivatives	6,446	7,078	8,524
Short positions	222	343	459
Financial liabilities measured at amortised cost	184,830	188,898	164,636

BALANCE SHEET - BANKIA GROUP	(€ million)		
	30 June 2018	31 December 2017 (1)	31 December 2016 (1)
Deposits from central banks	13,856	15,356	14,969
Deposits from credit institutions	23,867	22,294	23,993
Customer deposits	128,696	130,396	105,155
Debt securities issued	17,451	19,785	19,846
Other financial liabilities	960	1,067	673
Derivatives - Hedge accounting	252	378	724
Provisions	1,756	2,035	1,405
Tax liabilities	665	707	665
Liabilities included in disposal groups classified as held for sale	8	9	1
Other liabilities	820	871	916
TOTAL LIABILITIES	**195,000**	**200,319**	**177,330**
Minority interests (Non-controlling interests)	15	25	45
Accumulated other comprehensive income	299	366	489
Own funds	12,894	13,222	12,303
TOTAL EQUITY	**13,209**	**13,613**	**12,837**
TOTAL EQUITY AND TOTAL LIABILITIES	**208,208**	**213,932**	**190,167**

(1) For comparison purposes, the information on assets and liabilities of the Group shown at 31 December 2017 and 31 December 2016 is adapted to IFRS-EU 9 criteria, which according to European Union rules, is mandatory since 1 January 2018. The adaptation merely implies debt securities portfolios reclassification and nomenclature changes, as the Bankia Group took the decision to not restate the accounts, as permitted in the regulation.

In terms of commercial activity, the first semester of 2018 was positive as the Group increased credit originations in targeted sectors, obtained higher loyalty indexes and increased multi-channel customers. These advances were combined with further reductions in the NPL ratio and non-performing assets. Total loans and advances to customers amounted to €121,535 million as at 30 June 2018 representing a decrease of 1.2 per cent. compared to 31 December 2017. This was due to a decrease in mortgage lending and non-performing loans reflecting deleveraging in the sector and focus of the Group's management on reducing NPLs, both organically and through the sale of credit portfolios. However, new lending activity has continued to grow since the end of December 2017, in both the mortgage segment and consumer and business loans, in line with the Group's goal to grow these businesses. As at 31 December 2017, loans and advances to customers amounted to €123,025 million representing an increase of 17.5 per cent. compared to 31 December 2016, mostly due to the integration of BMN's credit portfolios. On a same-scope basis (i.e., excluding the 2017 staff costs arising from the integration with BMN), loans and advances to customers remained largely stable from 31 December 2016.

As at 30 June 2018 financial assets designated at fair value through other comprehensive income totalled €17,873, million, representing a decrease of 21.4 per cent. compared to 31 December 2017 due to sales and maturities of the public and private debt securities held in the portfolio. Part of the funds obtained from sales and maturities were reinvested in debt securities measured at amortised cost, which totalled €34,803 as at 30 June 2018, representing an increase of 6.6 per cent. from 31 December 2017. As of 31 December 2017, financial assets designated at fair value through equity decreased by €2,504 million or 9.9 per cent. to €22,745 million, whilst debt securities measured at amortised cost increased by €4,403 million, representing an increase of 15.6 per cent. compared to 31 December 2016, due to the reinvestment of funds and the integration of BMN's bond portfolio.

Customer deposits decreased by €1,700 million or 1.3 per cent. to €128,696 million as at 30 June 2018 compared to 31 December 2017. This decrease reflects the lower amount in the volume of repurchase agreements, which decreased by €2,231 million or 83.6 per cent. since 31 December 2017, and the €823 million reduction in the amount of one-off non-marketable mortgage-backed securities, while strict customer deposits (i.e., customer deposits excluding repurchase agreements and one-off non-marketable mortgage-backed securities) performed well increasing by €1,354 million in the first semester of 2018. As at 31 December 2017 customer deposits totalled €130,396 million, representing an increase of 24 per cent. compared to 31 December 2016. This increase was due to the merger with BMN, which contributed €28,904 million of customer deposits to the Group as at 1 December 2017.

The Group has a selective policy of issuance on the international bond markets, and endeavours to adapt the frequency and volume of market operations to the Group's structural liquidity requirements, maintaining an appropriate funding structure. In the first semester of 2018, €100 million have been raised through a new issue of covered bonds. During

2017 €1,250 million were raised in the market through new debt issues. These include (i) the €500 million issue of 10-year Tier 2 subordinated bonds which was completed on 2 March 2017; and (ii) the €750 million issue of Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities which was completed on July 2017.

As at 30 June 2018, provisions equalled to €1,756 million, decreasing by €278 million or 13.7 per cent. from the amount of provisions as at 31 December 2017. As at 31 December 2017 provisions amounted to €2,035 million, representing an increase of €630 million or 44.8 per cent from 31 December 2016 due to €448 million of provisions contributed by BMN as at 1 December 2017 and €445 million of non-recurring provisions set aside to cover staff restructuring costs related to the Bankia-BMN merger.

Credit quality

The table below shows the Group's NPL ratios and coverage as at 30 June 2018, 31 December 2017 and 31 December 2016:

	(€ million and %)		
CREDIT QUALITY - BANKIA GROUP	**30 June 2018**	**31 December 2017**	**31 December 2016**
Doubtful debts[(1)]	10,809	12,117	11,476
Total risk	133,962	136,353	117,330
Total provisions	5,945	6,151	6,323
NPL ratio[(2)] (%)	8.1	8.9	9.8
NPL coverage ratio (%)	55.0	50.8	55.1

(1) Doubtful debts include non performing customer loans and contingent liabilities.
(2) Gross book balance (before provisions) of doubtful risks on loans, advances to customers and contingent risks over total gross loans, advances to customers and contingent risks.

Doubtful debts fell by 10.8 per cent. from €12,117 million as at 31 December 2017 to €10,809 million at the end of June 2018. This improvement is due to the decrease in doubtful debts inflows, stronger efforts in monitoring and recovery management and sales of doubtful and extremely doubtful assets in the first semester of 2018. As a result, the NPL ratio fell to 8.1 per cent. at 30 June 2018, representing a decrease of 0.8 percentage points compared to 31 December 2017. To cover these doubtful exposures, the Group's total allowance for insolvencies at 30 June 2018 amounted to €5,945 million, leaving an NPL coverage ratio of 55 per cent.

As at 31 December 2017, doubtful debts were €12,117 million, representing an increase of €641 million as at 31 December 2016. The increase was the result of the integration of BMN's assets in December 2017. The NPL ratio at 31 December 2017 was 8.9 per cent., representing a decrease of 0.9 percentage points compared to 31 December 2016.

As at 30 June 2018, the Group's refinanced loan portfolio was €11,005 million compared to €12,579 million as at 31 December 2017. The coverage ratio of the refinanced loan portfolio was 27.5 per cent. and NPLs accounted for 57.9 per cent. of the portfolio as at 30 June 2018.

Solvency levels

As at 30 June 2018, the Group's CET1 phased-in ratio was 14.01 per cent. and a total capital ratio phased-in was 17.18 per cent. (calculated in accordance with CRR and CRD IV Basel III capital standards) compared to 14.15 per cent. and 16.84 per cent., respectively, as at 31 December 2017 and 15.08 per cent. and 16.42 per cent., respectively, as at 31 December 2016.

From 31 December 2017 to 30 June 2018 the Bankia Group's CET1 levels decreased by 14 basis points mostly due to the full implementation of the new IFRS-EU 9 and the change of calendar, both partially offset by the Group's organic generation of CET1 (37 basis points). The total capital ratio as at 30 June 2018 increased by 34 basis points compared to 31 December 2017, as the decrease in the CET1 phased-in ratio was compensated with the positive effect of the higher provisions computable in Tier 2 after IFRS-EU 9 has been implemented.

From 31 December 2016 to 31 December 2017 the Bankia Group's CET1 decreased by 93 basis points and the total capital ratio increased by 42 basis points due to the additional RWAs and the non-recurring restructuring costs associated with the integration of BMN. As at 31 December 2017, the merger with BMN had an estimated negative

impact on the CET 1 phased-in ratio and total solvency of 283 basis points and 322 basis points, respectively, which was absorbed by internal capital without tapping the market. On a same-scope basis (i.e., excluding BMN results from 2017), in 2017 the Bankia Group generated CET 1 capital of 190 basis points and total solvency would have increased by 364 basis points. These capital trends were driven mainly by organic CET1 generation, in line with the Group's objective of reinforcing CET1 given its permanence, availability and greater loss absorption capacity in accordance with Basel III capital requirements. In addition to the organic capital generation model, other drivers for these capital trends were gradual deleveraging and quality increase in portfolio assets, which included a decrease of €1,554 million in RWAs for market risk driven by the review of calculation models.

In 2017 Bankia reinforced its total capital ratio mainly by (i) the €500 million issue of 10-year Tier 2 subordinated bonds in March 2017 and (ii) the €750 million issue of Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities in July 2017. The merger with BMN increased Tier II capital of the Group by €175 million.

This capital generation model and stable results allow the Group to preserve capital in anticipation of more stringent regulatory developments, satisfy shareholders' expectations, absorb potential macroeconomic turbulences and ensure financial flexibility necessary to continue the development of activities.

The tables below shows both phased-in and fully loaded capital ratios of the Group as at 30 June 2018, 31 December 2017 and 2016, calculated in accordance with the CRR and CRD IV:

BASEL III CAPITAL STANDARDS (PHASED-IN) [1]	**30 June 2018** [2] **(€ million and %)**	**31 Dec 2017** [2] **(€ million and %)**	**31 Dec 2016** [2] **(€ million and %)**
Total capital	14,372	14,487	12,636
Common Equity Tier I (CET1)	11,720	12,173	11,606
Tier I capital	12,470	12,856	11,606
Tier II capital	1,902	1,632	1,030
Risk-weighted assets	83,634	86,041	76,959
Common Equity Tier 1 (CET1) minimum requirement	7,161	6,776	7,936
Common Equity Tier 1 (CET1) excess / (shortfall)	4,559	5,398	3,670
Total capital minimum requirement	10,088	9,787	7,936
Total capital excess / (shortfall)	4,284	4,700	4,700
Common equity Tier I (CET1) (%)	14.01	14.15	15.08
Tier I capital (%)	14.91	14.94	15.08
Tier II capital (%)	2.27	1.90	1.34
Total capital ratio (%)	17.18	16.84	16.42
CET1 ratio minimum requirement (%)	8.56	7.88	10.31
Total capital ratio minimum requirement (%)	12.06	11.38	10.31

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(1) Solvency ratios are calculated in accordance with CRR and CRD IV.
(2) Solvency ratios include the amount of the net profit earmarked for reserves obtained in each period.

BASEL III CAPITAL STANDARDS (FULLY LOADED) [1]	30 June 2018 [2] (€ million and %)	31 Dec 2017 [2] (€ million and %)	31 Dec 2016 [2] (€ million and %)
Total capital	13,271	13,289	11,497
Common Equity Tier I (CET1)	10,618	10,897	10,467
Tier I capital	11,368	11,647	10,467
Tier II capital	1,902	1,642	1,030
Risk-weighted assets	83,634	86,041	76,959
Common Equity Tier 1 (CET1) minimum requirement	7,736	7,959	8,081
Common Equity Tier 1 (CET1) excess / (shortfall)	2.882	2,938	2,386
Total capital minimum requirement	10,663	10,970	8,273
Total capital excess / (shortfall)	2,608	2,318	3,224
Common equity Tier I (CET1) (%)	12.70	12.66	13.60
Tier I capital (%)	13.60	13.53	13.60
Tier II capital (%)	2.27	1.91	1.34
Total capital ratio (%)	15.87	15.44	14.94
CET1 ratio minimum requirement (%)	9.25	9.25	10.50
Total capital ratio minimum requirement (%)	12.75	12.75	10.75

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(1) Solvency ratios are calculated in accordance with CRR and CRD IV.
(2) Solvency ratios include the amount of the net profit earmarked for reserves obtained in each period.

In December 2017, the ECB notified the Group that in 2018 the Group is required to maintain a minimum phased-in CET1 ratio of 8.56 per cent. and a minimum phased-in total capital ratio of 12.06 per cent. These capital ratios include: (i) the Pillar 1 requirement (CET1 of 4.5 per cent. and total capital of 8 per cent.), (ii) the Pillar 2 requirement (CET1 of 2.0 per cent.), (iii) the capital conservation buffer (CET1 of 1.875 per cent.), and the requirement arising from the Group's status as the other systemically important institution, which has been set at 0.1875 per cent. for CET1 in 2018.

The Group's CET1 phased-in of 14.01 per cent. as at 30 June 2018 means a surplus of €4,559 million above the current 8.56 per cent. regulatory minimum CET1 requirement. The Group's total capital of 17.18 per cent. implies a surplus of €4,284 million above the current 12.06 per cent. regulatory minimum total capital ratio requirement.

The following tables show the evolution of the Group's leverage ratio since 2016 both in a phased-in and fully loaded perspective, calculated in accordance with Commission Delegated Regulation (EU) 62/2015 of October 2014 (**Delegated Regulation 62/2015**):

Basel III Leverage ratio (Phased-in) [1]	30 June 2018 [2] (€ million and %)	31 December 2017 [2] (€ million and %)	31 December 2016 [2] (€ million and %)
Tier I capital Phased-in	12,470	12,856	11,606
Leverage ratio exposure	210,399	213,505	189,492
Leverage ratio Phased-in (%)	5.93	6.02	6.12

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(1) Leverage ratios calculated in accordance with CRR and Delegated Regulation 62/2015.
(2) Ratios include the amount of the net profit earmarked for reserves obtained in each period.

Basel III Leverage ratio (Fully loaded) [1]	30 June 2018 [2] (€ million and %)	31 December 2017 [2] (€ million and %)	31 December 2016 [2] (€ million and %)
Tier I capital fully loaded	11,368	11,647	10,467
Leverage ratio exposure	209,298	212,236	188,190
Leverage ratio fully loaded (%)	5.43	5.49	5.56

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(1) Leverage ratios calculated in accordance with CRR and Delegated Regulation 62/2015.
(2) Ratios include the amount of the net profit earmarked for reserves obtained in each period.

Since 31 December 2016, the leverage ratio exceeded the 3 per cent. minimum defined by the Basel Committee on Banking Supervision.

Distributable Items

The following table shows the Distributable Items of Bankia (as defined in the Conditions) on an individual basis as of 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	(€ million)	
Reserves available	8,009	8,386
Profit of the period	692	469
Distributions to holders	(215) [(1)]	(340)
Distributable Items of the Bank	**8,486**	**8.515**

(1) Estimated dividend based on previous fiscal year pay out ratio.

Administrative, Management and Supervisory Bodies

Board of Directors

The table below sets out the names of the members of the Board of Directors of the Issuer as at the date of this Offering Circular, the respective dates of their last appointment, their positions within the Issuer and the nature of their membership:

Date of last appointment	Name	Title	Nature of membership
24 March 2017	Mr. José Ignacio Goirigolzarri Tellaeche	Chairman	Executive
15 March 2016	Mr. José Sevilla Álvarez	Chief Executive Officer	Executive
24 March 2017	Mr. Antonio Ortega Parra	Member	Executive
14 September 2017	Mr. Carlos Egea Krauel	Member	Executive
15 March 2016	Mr. Joaquín Ayuso García	Lead Director	Independent
15 March 2016	Mr. Francisco Javier Campo García	Member	Independent
15 March 2016	Mrs. Eva Castillo Sanz	Member	Independent
24 March 2017	Mr. Jorge Cosmen Menéndez-Castañedo	Member	Independent
24 March 2017	Mr. José Luis Feito Higueruela	Member	Independent
24 March 2017	Mr. Fernando Fernández Méndez de Andés	Member	Independent
15 March 2016	Mr. Antonio Greño Hidalgo	Member	Independent

The table below sets forth the names of the members of the Board of Directors of the Issuer and their principal activities outside the Issuer at any time in the last five years and as at the date of this Offering Circular:

Name	Company	Position or Function
Mr. José Ignacio Goirigolzarri Tellaeche	BFA, Tenedora de Acciones, S.A.U.	Individual representative Chairman (currently)
	Confederación Española de Cajas de Ahorros (CECA)	Vice Chairman (currently)
	Mapfre, S.A.	Director (until September 2013)
	On Off Investments, S.A.	Vice Chairman (until October 2013)
Mr. José Sevilla Álvarez	BFA, Tenedora de Acciones, S.A.U.	Director (currently)
Mr. Antonio Ortega Parra	BFA, Tenedora de Acciones, S.A.U.	Director (currently)
	Cecabank, S.A.	Director (currently)

Name	Company	Position or Function
Mr. Carlos Egea Krauel	Confederación Española de Cajas de Ahorros (CECA)	Secretary of the Board of Directors (until January 2018)
	CASER, S.A.	Director (until March 2016)
	Fundación Caja Murcia	Chairman (currently)
	Banco Mare Nostrum, S.A.	Chairman (until January 2018)
	Caja de Ahorros de Murcia	Chairman (until June 2014)
	Ahorro Corporación, S.A.	Vicechairman (until April 2014)
	Cecabank, S.A.	Director (until March 2013)
	Cyum Tecnologías y Comunicaciones, S.L.	Director (until November 2013)
	Infocaja, S.L.	Director (until October 2013)
Mr. Joaquín Ayuso García	Ferrovial, S.A.	Vice Chairman (currently)
	National Express Group Plc.	Director (currently)
	Hispania Activos Inmobiliarios, S.A.	Director (until July 2018)
	Autopista del Sol Concesionaria Española, S.A.	Chairman (currently)
Mr. Francisco Javier Campo García	Cortefiel, S.A.	Individual representative Chairman (until June 2016)
	Asociación Española de Codificación Comercial (Aecoc)	Individual representative Chairman (currently)
	Food Service Project, S.L. (ZENA)	Individual representative Chairman (until October 2014)
	Grupo Empresarial Palacios Alimentación, S.A.	Individual representative Director (until June 2014) and shareholder (currently)
	Meliá Hotels International, S.A.	Director (currently)
	Exit Brand Management, S.L.	Shareholder (currently)
	Tuera 16, S.A., S.C.R. de Régimen Simplificado	Chairman (until March 2015) and Shareholder (currently)
Mrs. Eva Castillo Sanz	Telefónica, S.A.	Director (until April 2018)
	Telefónica Deutschland, GMBH	Chairman Supervisory Board (until May 2018)
	Visa Europe	Director (until December 2016)
	Telefónica Europa Plc	Chairman (until March 2014)
	Telefónica Czech Republic, A.S.	Chairman Supervisory Board (until January 2014)
	Tuenti Technologies, S.L.	Chairman (until June 2014)
	Fundación Comillas-ICAI	Trustee (currently)
	Fundación Telefónica	Trustee (until April 2018)
	Fundación Entreculturas	Trustee (currently)

Name	Company	Position or Function
Mr. Jorge Cosmen Menéndez-Castañedo	Brunolivia, S.L.	Joint and Several Administrator (until January 2015) and shareholder (currently)
	Estudios de Política Exterior, S.A.	Individual representative Director (until March 2015)
	National Express Group Plc.	Vice Chairman (currently)
	Autoreisen Limmat	Director (until January 2015)
	Lusocofinex, S.L.	Director (until January 2015)
	General Técnica Industrial, S.L.U.	Individual representative Director (currently)
	Fundación Integra	Trustee (currently)
	Fundación Consejo España China	Trustee (currently)
Mr. José Luis Feito Higueruela	Mundigestión, S.L. Gestión Administrativa	Shareholder (currently)
	Red Eléctrica Corporación, S.A.	Director (currently)
Mr. Fernando Fernández Méndez de Andés	BFA, Tenedora de Acciones, S.A.U.	Director (until October 2015)
	Red Eléctrica Corporación, S.A.	Director (currently)
	Pividal Consultores, S.L.U.	Chairman (until November 2016)
Mr. Antonio Greño Hidalgo	BFA, Tenedora de Acciones, S.A.U.	Director (until March 2016)
	Catalunya Bank, S.A.	Individual representative Director (until April 2015)
	Liberty Seguros, Compañía de Seguros y Reaseguros, S.A.	Director (currently)
	PricewaterhouseCoopers	Shareholder (until June 2014)

As at the date of this Offering Circular, there were no conflicts of interest, or potential conflicts of interest, between any duties toward the Issuer of any of the members of the Board of Directors of the Issuer and their respective private interests and/or any other duties.

The business address of each member of the Board of Directors is Paseo de la Castellana 189, Torre Bankia, 28046, Madrid, Spain.

Management Committee

Bankia's senior management consists of three executive directors (José Ignacio Goirigolzarri Tellaeche, José Sevilla Álvarez and Antonio Ortega Parra) and the rest of the members of the Management Committee. The table below sets out the names of the members of the Management Committee of the Issuer as at the date of this Offering Circular, the respective dates of their appointment and their positions within the Issuer:

Date of appointment	Name	Office
9 May 2012	Mr. José Ignacio Goirigolzarri Tellaeche	Executive Chairman
16 May 2012	Mr. José Sevilla Álvarez	Chief Executive Officer
16 May 2012	Mr. Antonio Ortega Parra	Executive Director and General Manager of People Resources and Technology
16 May 2012	Mr. Miguel Crespo Rodríguez	General Secretary
25 May 2012	Ms. Amalia Blanco Lucas	Deputy General, Director of Communication and External Relations of the Group

Date of appointment	Name	Office
25 June 2014	Mr. Fernando Sobrini Aburto	Deputy General Director of Retail Banking
25 June 2014	Mr Gonzalo Alcubilla Povedano	Deputy General Director of Business Banking
7 May 2018	Mr. Joaquín Canovas Páez	Deputy General Director for Investees and Associated Undertakings

The table below sets forth the names of the members of the Management Committee and the Internal Auditing Director and their principal activities outside the Issuer at any time in the last five years and as at the date of this Offering Circular:

Name	Company	Position
Ms. Amalia Blanco Lucas	A contracorrientefilms, S.L.	Chairman (currently)
Mr. Fernando Sobrini Aburto	Mapfre Familiar Cía. de Seguros y Reaseg., S.A.	Representative of the Director Valoración Control S.L. (until April 2014)
	Mapfre Vida, S.A. Seguros y Reaseguros	Representative of the Director Participaciones y Cartera de Inversión S.L. (until abril 2014)
	Mapfre Asistencia, Cía Internacional de Seguros y Reaseg.	Representative of the Director Participaciones y Cartera de Inversión S.L. (until November 2013)
	Mapfre Caja Madrid Vida S.A. de Seguros y Reaseg.	Representative of the Director Valoración Control S.L. (until October 2014)
	Bankia Fondos SGIIC S.A.	Chairman (until October 2016)
	Bankia Pensiones, S.A., EGFP	Chairman (currently)
Mr. Gonzalo Alcubilla Povedano	Deoleo, S.A.	Representative of the Director Inmogestión y Patrimonios, S.A. (until June 2014)
	Global Vía Infraestructuras, S.A.	Representative of the Director Inmogestión y Patrimonios, S.A. (until March 2016)
	Mapfre Seguros de Empresas Compañía de Seguros y Reaseguros, S.A.	Representative of the Director Participaciones y Cartera de Inversión, S.L. (until April 2014)
	Indra Sistemas, S.A.	Representative of the Director Participaciones y Cartera de Inversión, S.L. (until August 2013)
Mr. Joaquín Canovas Páez	Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.	Representative(until June 2013) Representative of Banco Mare Nostrum, S.A. (until September 2014)
	Information Technology Nostrum, S.L.	Representative of the Director Gesmare Sociedad Gestora, S.L.U. (until September 2014)
	Caja de Seguros Reunidos Compañía de Seguros y Reaseguros, S.A.	Representative of the Director Gesnostrum Sociedad Gestora, S.L.U. (currently)
	Lico Corporación, S.A.	Representative of the Director Banco Mare Nostrum, S.A. (until May 2014)
	Cecabank, S.A.	Representative (until January 2018)

As at the date of this Offering Circular, there were no conflicts of interest, or potential conflicts of interest, between any duties toward the Issuer of any of the members of the Board of Directors or the Management Committee of the Issuer and their respective private interests and/or any other duties.

Employees

As at 30 June 2018, at a consolidated level, the Group's staff consisted of 16,493 employees (17,757 at the end of December 2017).

Major Shareholders

The following table sets forth information as of the date of this Offering Circular concerning the significant ownership interests of Bankia's shares (as defined by Spanish regulations, those who hold a stake in the Issuer's share capital representing 3 per cent. or more of the total voting rights, or 1 per cent. or more if the relevant significant shareholder is established in a tax haven), based on filings with the CNMV, excluding the members of the Board of Directors:

	Ownership (voting rights)		
Name of shareholder	**Direct**	**Indirect**	**% Total**
Artisan Partners Asset Management Inc.[(1)]	--	94,710,710	3.070
BFA Tenedora de Acciones, S.A.	1,890,811,877	--	61.29
Invesco Limited[(2)]		30,115,041	1.046

(1) Artisan Partners Asset Management Inc. holds its stake through Artisan Partners Limited Partnership.
(2) Investo Limited holds its stake through Invesco Asset Management Limited (1.038%) and other entities (0.007%).

As at the date of this Offering Circular, 61.29 per cent. of the Issuer's share capital was held by BFA. As a result, BFA has decisive influence regarding all matters requiring a decision of a majority of the shareholders, including, among others, the appointment of directors (with the legal limitations of proportional representation established by Spanish law), increase or reduction of capital and amendment of the bylaws.

BFA and Bankia and their respective subsidiaries have various commercial and financial relationships. In accordance with the corporate governance recommendations, Bankia and BFA have entered into a framework agreement which, among others, regulates the scope of activity of both companies and establishes mechanisms to prevent conflicts of interest. This agreement also includes the obligation that operations between BFA and Bankia be undertaken on market terms, and that entering into, amending or renewing them (as well as any material operations that, by reason of those undertaking them, are treated as being related) must be approved by the Board of Directors of Bankia, after a favourable report from the Audit and Compliance Committee. This report must expressly decide on the essential proposed terms and conditions (term, purpose, price, etc.).

Litigation

As at the date of this Offering Circular, certain legal proceedings and claims were ongoing against the Bankia Group. The Group has recorded provisions of €269 million for taxes and other legal contingencies accounted for as at 30 June 2018. The Bankia Group estimates that it has recorded the necessary provisions for the different types of risks. However, the proceedings against Bankia or its subsidiaries described below could have significant effects on the financial position and profitability of the Group.

IPO litigation

The Group is involved in certain criminal and civil procedures taken against Bankia regarding the sale of shares in the context of its IPO in July 2011.

With regard to the civil procedures, on 27 January 2016 Bankia was notified by the Spanish Supreme Court of two judgments in favour of retail investors who subscribed for Bankia's shares in the context of its IPO. On 17 February 2016, Bankia announced the settlement of claims of retail investors, in exchange for the return of their shares to the Issuer.

In addition, 97 claims have been filed by institutional investors, 90 from the primary market and 7 from investors who acquired shares on the secondary market. As at 30 June 2018, 74 rulings have been issued at first instance, of which 19 are favourable and 55 unfavourable to Bankia. In the second instance, 27 rulings were issued, 22 unfavourable and 5 favourable to Bankia. In the secondary market, 7 rulings have been issued in the first instance, 6 favourable to Bankia and 1 unfavourable to Bankia.

As at 31 July 2018, 659 proceedings were on-going against Bankia requesting payments relating to its IPO. The total risk exposure in respect of these claims amounts to €76 million, of which €60 million relate to claims that have been filed by institutional investors.

As of 30 June 2018, the BFA-Bankia Group had used provisions amounting to €1,864 million**,** of which €760 million related to Bankia and €1,104 million to BFA in application of the agreement entered into between the two institutions where Bankia assumed a first-loss tranche of 40 per cent. of the estimated cost and BFA the remaining 60 per cent. The total cost for the BFA-Bankia Group, including the used provisions (€1,864 millions), is currently estimated at €1,886 million based on information available as of July 2018. Then, the total net cost associated with this issue amounted to €22 million.

The assumptions used to estimate this provision are reviewed, updated and validated regularly. The key assumptions that can have a material impact on this provision include the number of claims to be received and expectations regarding the outcome and profile of the claimants due to their inherent uncertainty.

Preliminary Proceedings nº 59/2012 before the Central Court of Instruction (Juzgado Central de Instrucción) nº 4 of the National Audience (Audiencia Nacional). As described above, the criminal proceedings investigate Bankia's IPO and the reformulation of 2011 financial statements. On 17 November 2017, the Central Court of Instruction Nº. 4 of the National Audience issued an order opening the oral trial phase. The order agreed to the opening of oral proceedings for the crimes of falsification in the annual accounts, typified in article 290 of the Penal Code and investors fraud established in article 282 bis of the Penal Code against certain former directors, executives and former directors of Bankia and BFA, the External Auditor (Deloitte) and against BFA and Bankia as legal entities.

On 7 June 2018, the Central Court of Instruction (Juzgado Central de Instrucción) nº 4 of the National Audience has ruled on the evidence requested by the parties and has scheduled the beginning of the trial sessions for 26 November 2018.

Claims Related to Hybrid Instruments

The former Restructuring Plan provided for the actions of the management of hybrid instruments (preferred securities and subordinated debt), which were implemented within the context of the principles and objectives related to the sharing of the restructuring costs of the financial institutions established in Law 9/2012. In May 2013, as part of the Restructuring Plan, the process of exchange of hybrid instruments and subordinated debt of the BFA-Bankia Group was completed. The amount of capital actually generated by the hybrid management actions was, as forecasted, €6.7 billion at the BFA-Bankia Group level, of which €4.9 billion was new capital in Bankia.

According to an agreement dated 31 January 2014, BFA and Bankia agreed between themselves that Bankia's liability in respect of the claims which are the subject of court proceedings should be limited to a maximum amount of €246 million and that BFA will compensate Bankia if it suffers any liability in respect of the hybrid instruments in excess of this figure. Also, in accordance with such agreement, BFA will assume the obligations derived from the enforcement of the arbitral awards which are the subject of consumer arbitration as well as the expenses resulting from the implementation and enforcement of such arbitral proceedings.

Based on the claims made and in consideration of the agreement with BFA limiting Bankia's liability in relation to such claims, as well as the agreement of the FROB's steering committee, Bankia had established a provision regarding its contingent liability in respect of the claims of investors in hybrid instruments of €246 million (of which €230 million was provisioned in 2013 and the remaining €16 million in 2014), which had been used in full during 2015.

As at 31 December 2015, BFA established an additional provision of €415 million regarding its contingent liability in respect of any potential claims of investors in hybrid instruments. As at 30 June 2018 the total provision amounted to €145 million.

As at the date of this Offering Circular, the BFA-Bankia Group is subject to claims in several courts from a number of investors in hybrid instruments seeking declarations of nullity in respect of terms alleged to be abusive, including the terms related to its long-term maturity or perpetual nature, the issuer's right to call for redemption, and the linkage of payments under the instruments to profitability. As at 31 July 2018, the total estimated risk exposure in relation to such claims is €102 million having already paid BFA as court deposit €24 million.

As at the date of this Offering Circular, the following proceedings involving the Bankia Group were ongoing in relation to the hybrid instruments:

- *Preliminary Proceedings 59/2012 before the Central Court of Instruction (Juzgado Central de Instrucción) nº 4 of the National Audience (Audiencia Nacional)*. This criminal proceeding investigates Bankia's IPO and the reformulation of 2011 Financial statements. It was brought by, among others, Unión Progreso y Democracia (**UPyD**) against Bankia, BFA, and the previous members of their respective Boards of Directors in respect of charges of fraud, misappropriation, falsification of accounts, fraudulent management and artificial price disruption (*alteración del precio de las cosas*). On 17 May 2018, the Central Court of Instruction nº. 4 issued an order declaring the file of the Separated Preferential Parts of Caja Madrid and Bancaja. (Preleminary Proceedings 59/12). On 7 June 2018, the Central Court of Instruction (Juzgado Central de Instrucción) nº 4 of the National Audience has ruled on the evidence requested by the parties and has scheduled the beginning of the trial sessions for 26 November 2018.

- *Class action for an injunction for abusive characteristics contained in prospectuses of the hybrid instruments (participaciones preferentes) and subordinated debentures*. This class action was submitted by the Association for Clients of Banks, Savings Banks and Insurance (*Asociación de Usuarios de Bancos Cajas y Seguros*) ADICAE and holders of hybrid instruments and subordinated debentures. The lawsuit requests the nullification as abusive certain clauses contained in the issuance prospectuses by the Savings Banks of origin, including those related to the perpetuity and long-term maturity of the instruments, the right of redemption by the issuer before a period of five years, coupon payments and benefits conditional on profitability. In the case that a class action is resolved against Bankia, clients will be able to adhere to that class action.

  The following cases are included in the class action proceedings:

  - Action brought before the Commercial Court (*Juzgado de lo Mercantil*) nº 5 of Madrid by ADICAE and several hybrid instruments and subordinated debentures holders in relation to the issuance of hybrid instruments with a par value of €3,000 million by Caja Madrid in 2009. On 16 February 2017, the Commercial Court (*Juzgado de lo Mercantil*) nº 5 of Madrid ruled in favour of Bankia as follows: (i) to dismiss the action of injunction for misleading and illicit publicity; (ii) to dismiss the action of cessation by abusive commercial practice, when declaring the legal character of preferred shares; (iii) to dismiss the nullity of the share purchase agreement on grounds that the terms contained in it which were deemed to be unfair were not essential. The risk remains that the adherents to the claim could file individual claims on grounds of mistake (*error del consentimiento*). On 24 March 2017, an appeal was submitted by ADICAE. Bankia has opposed to this appeal and the Court decision in the second instance is pending.

  - Action brought before the Commercial Court (*Juzgado de lo Mercantil*) nº 3 of Valencia (Order 303/13) seeking the nullity of general terms and conditions in relation to the issuance of hybrid instruments issued by Caja Insular de Canarias in 2004 and 2008, each with a nominal amount of €30 million. On 19 July 2017, the second instance Court ruled in favour of Bankia and a causation appeal has been submitted to the Supreme Court. Bankia has opposed to the causation appeal and the decision of the Supreme Court is pending.

  - Ordinary legal proceeding 110/2013 before the Commercial Court (*Juzgado de lo Mercantil*) nº 1 of Valencia involving the 3º, 8º and 10º issuance of subordinated debentures by Bancaja with an aggregate nominal amount of €1,300 million (preliminary hearing suspended as separation of the proceeding into different individual claims (*desacumulación de acciones*) was agreed. The decision is pending.

  - Ordinary legal proceeding 580/2013 before the Commercial Court (*Juzgado de lo Mercantil*) n° 2 of Valencia involving a €30 million issuance of hybrid instruments by Caja Ávila (a judgment in

favour of Bankia, a causation appeal has been submitted to the Supreme Court. Bankia has opposed to the causation appeal and the decision of the Supreme Court is pending).

- Ordinary legal proceeding 1197/2012 before the Commercial Court (*Juzgado de lo Mercantil*) n° 6 of Logroño relating to the €25 million issuance of hybrid instruments by Caja Rioja (judgments in first and second instances are in favour of Bankia and a causation appeal has been submitted to the Supreme Court. Bankia has opposed to the causation appeal and the decision of the Supreme Court is pending).

- Action 257/13 brought before the Commercial Court (*Juzgado de lo Mercantil*) nº 7 of Madrid, by ADICAE and 19 other holders of hybrid instruments (*participaciones preferentes*) in respect of preferred/subordinated characteristics alleged to be abusive in relation to subordinated notes issued by Caja Madrid with an aggregate nominal amount of €400 million (a judgment against Bankia, which has appealed and the Court decision in second instance is pending).

- *Contentious-administrative proceedings begun before the 3º Section of the National Audience (Audiencia Nacional) against the FROB*. These proceedings aim to void the FROB's regulation of 16 April 2013 that agreed the recapitalisation and management of hybrid instruments and subordinated debentures under the Restructuring Plan regulating the total early redemption of the hybrid instruments and other securities through an exchange of shares. Bankia is currently a party in the proceedings defending the FROB's agreement. The National Audience has ruled in favour of the FROB and Bankia. A cassation appeal has been submitted to the Supreme Court. The Supreme Court has favorably turned over the FROB and Bankia in the two proceedings, one of the judgments issued is pending to acquire finality, against the other has been initiated an incident of nullity of proceedings pending resolution.

- Other proceedings. There are a significant number of proceedings ongoing in several courts involving requests for, among others, the nullity of the subscription contracts and the mutual restitution of benefits by the holder of the hybrid instruments and subordinated debentures issued by the Cajas or by vehicle companies.

See also "*Risk Factors—The Group is exposed to risk of loss from legal and regulatory proceedings*".

Other Legal Proceedings

In addition, as at the date of this Offering Circular, certain legal proceedings and claims were ongoing against the Bankia Group arising from the ordinary course of its operations. These include the following:

- As at 31 July 2018, 6,005 proceedings were on-going against Bankia requesting the nullification of Bankia's floor clauses, entailing an estimated risk exposure of €44 million.

- As at 31 July 2018, 329 proceedings were on-going against Bankia requesting the nullification of Bankia derivatives agreements. The total estimated risk exposure in respect of these claims amounts to €74 million.

- Proceedings have been brought by Construcciones FACOMA 2000 S.A. against Bankia for the impossibility of development of a real estate project (claim €20.9 million) plus a claim of nullification of a derivative (claim €3.3 million). The first instance has only ruled the nullity of the derivative and has rejected the claim concerning the real estate project. A Court decision in second instance is currently pending.

- There are a number of legal proceedings filed in accordance with Law 57/1968, of 27 July, regarding the receipt of sums of money prior to the construction and sale of property, with a combined estimated risk exposure of €48 million.

- Two proceedings have been brought by ING Belgium, S.A., BBVA, S.A., Banco Santander, S.A., Catalunya Banc, S.A. and other banking syndicates against Bankia and several other parties before three different first instance courts of Madrid:

(i) First Instance Court (*Juzgado de 1ª Instancia*) nº 2 of Madrid: the claimants are requesting fulfilment of the contractual obligations agreed to in the "Supporting Contract" granted under financings by the syndicate banks in favour of a concessionary corporation for the construction of certain roads. Bankia has obtained a favourable judgment in first instance and second instances. A causation appeal has been submitted to the Supreme Court in relation to this judgment.

(ii) First Instance Court (*Juzgado de 1ª Instancia*) nº 48 of Madrid: the claimants are requesting the fulfilment of a comfort letter by Bankia to guarantee the fulfilment of the "Supporting Contract". The court resolved against Bankia in first and second instances. A causation appeal has been submitted to the Supreme Court.

The total estimated risk exposure with respect to these claims amounts to €165 million.

- Proceedings have been brought by Grupo Rayet, S.L.U. against Bankia, among others, in relation to irregularities in the land valuation conducted in the context of Astroc's IPO in 2006, for which Bankia acted as lead manager. The claim has been replied to and a plea as to jurisdiction has been submitted pending resolution. The co-defendant, CB Richard Ellis, has requested the termination of the proceedings due to the lapsing of the legal action. The total estimated risk exposure in respect of this claim is €78.2 million.

- Proceedings have been brought by Vallearganda, S.L. against Bankia in relation to the nullity of the mortgage foreclosure of a loan assigned to SAREB. The claim has been replied and the preliminary hearing is pending. The total estimated risk exposure in respect of this claim is €29.8 million

- Proceedings have been brought by Cancun Holding II B.V. against Bankia (Invernostra, S.L.) in relation to a claim against a former employee of Sa Nostra for breach of his duties as director of the Dutch company Cancun Holding II B.V. Should the Dutch Courts rule against the current directors, of Cancun Holding II B.V., then such directors may request payment from Bankia. The first instance Court has ruled in favour of Bankia. The total estimated risk exposure in respect of this claim is USD83.4 million.

- Proceedings have been brought by Dorica Empresa Constructora, S.A. against Bankia in relation to irregularities on the financing of two real estate developments. The civil proceeding was suspended after filing of the claim (querella) regarding the undue disposal of a loan, whose borrower claims to has been assigned for a different purpose from the purpose agreed between the parties. The Court of appeal has rejected the suspension and it has been scheduled date for trial on April 2019. The total estimated risk exposure in respect of this claim is €33.8 million.

- Proceedings have been brought by Unión de Capitales, S.A.U. against Bankia in relation to irregularities in the acquisition of certain shares of Deoleo, S.A. The civil claim has been replied by Bankia, but the civil proceedings have been suspended until the criminal liability (*prejudicialidad penal*) is settled. The total estimated risk exposure in respect of this claim is €20 million.

- In 2011, a claim (*querella*) was brought in the Court of Instruction (*Juzgado de Instrucción*) nº 1 of Palma de Mallorca against Bankia for the pledge of certain assets without the consent of its owner. The total estimated risk exposure in respect of this claim is €20 million. On 22 June 2018, the Court issued a decision agreeing to conclude the pre-trial phase and initiate the abbreviated procedure. Pending that the Public Prosecutor's Office issues a report.

- Governmental proceedings have been brought for the resolution of a contract for the build, construction, conservation and use of highways, guaranteed by Bankia. The proceedings are in the initial phase and the total estimated risk exposure in respect of this claim is €95 million.

- In 2012 a claim (*querella*) was brought by Asociación de Pequeños Accionistas del Banco de Valencia "Apabankval" (**Banco de Valencia**) against the members of the Board of Directors of Banco de Valencia and Deloitte, S.L. (preliminary proceedings 65/2013-10), in respect of accusations of corporate crimes. On 13 December 2017, an indictment was issued for including BFA as subsidiary civil liable. The risk of this proceeding cannot be quantified yet.

- In a ruling dated 6 June 2016, Central Court of Instruction 1 of the National Court admitted the addition to preliminary proceedings 65/2013-10 of a claim submitted by Jacobo Carlos Rios-Capapé Carpí, Elena Gans García, Sebastián and María Miguela Carpí Cañellas, shareholders of Banco de Valencia against several members of the board of directors of Banco de Valencia, Deloitte, S.L. and Bankia for the corporate crime of falsification of accounting documents set out in Article 290 of the Spanish Penal Code. The plaintiffs were seeking joint compensation of €9.9 million. Bankia was represented in the procedure and ruling on admission is pending. On 7 November 2016, Central Court of Instruction No. 1 issued a ruling rejecting the appeal for amendment filed by Bankia on 26 July 2016. On 17 November 2016, Bankia filed an appeal against this ruling with the National Court (*Audiencia Nacional*). On 13 March 2017, the National Court (*Audiencia Nacional*) issued a decree confirming that (i) Bankia cannot be held responsible for the criminal acts of which it was accused; and (ii) Bankia bears subsidiary civil liability (*responsabilidad civil subsidiaria*) for such criminal acts, which means that Bankia may be responsible for the payment of the fines in the event that the person found responsible for the crime is not able to pay.

  On 1 June 2017, Apabankval agglutinated approximately 351 damaged parties. Also, in accordance with the Order of 8 January 2018, the Central Court of Instruction nº 1 identified up to that date another 89 people as damaged, unifying their representation and defense in the association Apabankval, in accordance with the provisions of the Article 113 LECrim.

  On 6 September 2017, María Mercedes García Aliaga filed a new complaint for a crime of accounting falsification of article 290.2 CP. The complaint is addressed against ex members of the board (natural persons) as criminal liability and against Bankia only as civil liability (in addition to Valenciana de Inversiones Mobiliarias and Deloitte also as civil liability).

  On 13 December 2017, the Central Court of Instruction nº. 1 issued an order agreeing to bring to the process as civil liability subsidiaries BFA, Holding of Shares S.A.U and the Bancaja Foundation. Against this Auto BFA filed Remedy of Reform that has been rejected by Order of 13 December 12017, and subsidiary of appeal of which has been desisted. The letter states that such withdrawal isn´t made because BFA is silent on the mentioned resolution, but because it is reserved for a further procedural moment, to resubmit the arguments presented that it considers to be sound and well founded.

  The FROB, through the State Advocacy, has filed an appeal against the Order of 13 December 2017, which dismisses the Remedy of Appeal, pending resolution and to which Bankia and BFA have adhered, insofar as it estimates materially correct the arguments of the FROB opposing the eventual civil liability subsidiary of BFA that are extensible to Bankia.

  Order of 25 June 2018, which rejects the appeal for reform presented by the Fundación Bancaja of a special nature of the Community of Valencia, against the order of 13 December 2017, which declared it a civil liability subsidiary. Therefore, the Bancaja Foundation remains a civil liability subsidiary together with BFA and Bankia.

- An arbitration proceeding is currently on-going between a group of Spanish credit institutions, including Bankia and BFA, and SAREB with regard to a discrepancy on how the interest of certain tranches of the SAREB bonds shall be calculated. The total estimated risk exposure for Bankia in respect of this proceeding is €28.6 million.

Credit Ratings

As at the date of this Offering Circular, the Issuer has been assigned long-term debt ratings of BBB (stable outlook) by Standard & Poor's, BBB- (positive outlook) by Fitch Ratings España, S.A.U., BBB (high) (stable outlook) by DBRS Ratings Limited and BBB+ (stable outlook) by Scope Ratings GmbH.

Alternative Performance Measures

In addition to the financial information contained in this Offering Circular prepared in accordance with the IFRS-EU, certain Alternative Performance Measures (**APMs**) are included in the management reports that complement the audited consolidated interim financial statements for the six-month period ended 30 June 2018, and the 2016 and 2017 audited consolidated annual accounts, which are incorporated by reference to this Offering Circular.

The APMs are as defined by the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415) (the **ESMA Guidelines**). The ESMA Guidelines define APMs as financial measures of historical or future financial performance, financial situation or cash flows, other than financial measures defined or specified in the applicable financial reporting framework.

The Issuer uses certain APMs, which have not been audited, for the purposes of contributing a better understanding of the company's financial evolution. Bankia considers that these APMs provide useful information for investors, securities analysts and other interested parties in order to better understand the Group's business, financial position, profitability, results of operations, the quality of its loan portfolio, the amount of equity per share and their progression over time.

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

MARKET INFORMATION

The Ordinary Shares of Bankia are listed on the Spanish Stock Exchanges (as defined in the Conditions) of Madrid, Barcelona, Bilbao and Valencia, which are regulated markets for the purposes of MiFID II, under the ticker symbol *BKIA*.

The Spanish securities market for equity securities consists of the Spanish Stock Exchanges (as defined in the Conditions) and the Automated Quotation System (**AQS**). The AQS links the four Spanish Stock Exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The Spanish securities markets are regulated by the CNMV.

AQS

The AQS was founded in 2 November 1995, substituting the computer assisted trading system known as *Sistema de Interconexion Bursatil*, which had been in place since 1989. The principal feature of the system is the computerised matching of bid and offer orders at the time of placement. Each order is completed as soon as a matching order occurs, but can be modified or cancelled until completion. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by Sociedad de Bolsas, S.A. (***Sociedad de Bolsas***), a company owned by the companies that manage the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of one of the Spanish Stock Exchanges.

In a pre-opening session held from 8:30 to 9:00 am (Madrid time) each trading day, an opening price is established for each equity security traded on the AQS based on a real-time auction in which orders can be placed, modified or cancelled, but not completed. During this pre-opening session, the system continuously displays the price at which orders would be completed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price cannot be determined, the best bid and offer price and their respective associated trading volumes are disclosed instead. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the admission of new securities to trade on the AQS) and subject to prior notice to the CNMV, Sociedad de Bolsas may establish an opening price disregarding the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price or modify the reference price.

The computerised trading hours, known as the open session, range from 9.00 a.m. to 5.30 p.m. (CET). The AQS sets out two ranges of prices for each security named static and dynamic in order to monitor the volatility of the trading price of each security. During the open session, the trading price of a security is permitted to fluctuate up to a maximum so-called *static* range of the reference price (the price resulting from the closing auction of the immediately preceding trading day or the immediately preceding volatility auction in the current trading session), provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called *dynamic* range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and ask orders for a security within the computerised system which exceed any of the above *static* and/or *dynamic* ranges, trading on the security is automatically suspended and a new auction, or volatility auction, is held where a new reference price is set, and the *static* and *dynamic* ranges will apply over such new reference price. The *static* and *dynamic* ranges applicable to each specific security are set up and reviewed periodically by Sociedad de Bolsas. From 5:30 pm to 5:35 pm (Madrid time), known as the closing auction, orders can be placed, modified or cancelled, but no trades can be completed.

Between 5:30 pm and 8:00 pm (Madrid time), trades may occur outside the computerised matching system without prior authorisation of Sociedad de Bolsas (provided such trades are however disclosed to Sociedad de Bolsas), at a price within the range of 5 per cent. above the higher of the average price and closing price for the day and 5 per cent. below the lower of the average price and closing price for the day if (i) there are no outstanding bids or offers, respectively, on the system matching or improving the terms of the proposed off-system transaction; and (ii) among other requirements, the trade involves more than €300,000 and more than 20 per cent. of the average daily trading volume of the relevant security during the preceding three months. These off-system trades must also relate to individual orders from the same person or entity and shall be reported to Sociedad de Bolsas before 8:00 pm (Madrid time).

Trades may take place at any time (with the prior authorisation of Sociedad de Bolsas) and at any price if:

- the trade involves more than €1.5 million and more than 40 per cent. of the average daily trading volume of the relevant securities during the preceding three months;
- the transaction results from a merger or spin-off, or from the restructuring of a group of companies;
- the transaction is executed for the purpose of settling litigation or completing a complex set of contracts; or
- for any other reason which justifies the authorization of such transaction at the discretion of Sociedad de Bolsas.

Information with respect to the computerised trades between 9:00 am and 5:30 pm (Madrid time) is made public immediately, and information with respect to off-system trades is reported to the Sociedad de Bolsas by the end of the trading day and published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Clearing, Settlement and Book-Entry System

The Spanish clearing, settlement and book-entry system has been recently adapted by Law 11/2015 and Royal Decree 878/2015, of October 2, (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*) (**Royal Decree 878/2015**) to the provisions set forth in Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories, amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012. Following the implementation of this reform, transactions carried out on the AQS continue to be settled by Iberclear, as central securities depository, and are cleared by BME Clearing, S.A., (**BME Clearing**) as central counterparty (**CCP**).

Iberclear and BME Clearing, are owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a listed holding company which also holds a 100 per cent. interest in each of the Spanish official secondary markets.

Shares of listed Spanish companies are represented in book entry form. The book entry system is a two tier level registry: the keeping of the central book-entry register corresponds to Iberclear and the keeping of the detail records correspond to the participating entities 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 (*Tesorería General de la Seguridad Social*), (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 will 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 such shares.

According to the above, Spanish law considers the owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name.
- the investor appearing in the records of the participating entity as holding the shares; or
- the investor appearing in the records of Iberclear as holding shares in a segregated individual account.

BME Clearing is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions vis-à-vis the participants designated in such buy or sell instructions. The CCP then generates and send to Iberclear the relevant settlement instructions.

The settlement and book-entry registration platform managed by Iberclear, which operates under the trade name of ARCO, 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.

Obtaining legal title to shares of a company listed on the Spanish Stock Exchanges requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner's request the relevant participating entity must issue a legitimation certificate (*certificado de legitimación*). If the owner is a participating entity or a person holding shares in a segregated individual account, Iberclear is in charge of the issuance of the certificate regarding the shares held in their name.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositories for Euroclear Bank, S.A./N.V., as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, Societé Anonyme, Luxembourg (**Clearstream**) and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, the Management Regulations of Clearstream and the instructions to Participants of Clearstream, as amended from time to time, as applicable. Subject to compliance with such regulations and procedures, those persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited (**investors**) shall have the right to receive the number of shares equal to the number of shares credited in their accounts, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees, as described below, if any, and once the relevant recording in the book-entry registries kept by the members of Iberclear has occurred.

Under Spanish law, only the holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear, or its nominees, or Clearstream, or its nominees, will, respectively, be the sole record holder of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, until investors exercise their rights to withdraw such shares and record their ownership rights over them in the book-entry records kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction of any applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. See "*Taxation*" beginning on page 124.

Each of Euroclear and Clearstream will endeavour to inform investors of any significant events of which they become aware affecting the shares recorded in the name of Euroclear, or its nominees, and Clearstream, or its nominees, and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as they shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of proxies, powers of attorney or other similar certificates for delivery to the Bank, or its agent; or (ii) exercise by Euroclear or its nominees and Clearstream or its nominees of voting rights in accordance with the instructions provided by investors.

If the Bank offers or causes to be offered to Euroclear, or its nominees, and Clearstream, or its nominees, acting in their capacity as record holders of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavour to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of its regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or alternatively, such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

DESCRIPTION OF THE SHARE CAPITAL

The following summary provides information concerning the Issuer's share capital and briefly describes certain significant provisions of the Issuer's bylaws (*estatutos sociales*) and Spanish corporate law, including the Spanish Companies Act, the Spanish Law 3/2009 on Structural Amendments of Private Companies (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*), the Spanish Securities Market Law and the Royal Decree 878/2015.

Issuer's ordinary shares

The issued share capital of the Issuer as of the date of this Offering Circular is €3,084,962,950 represented by a single series and class of 3,084,962,950 shares, with a nominal value per ordinary share of €1.00, fully subscribed and paid up (the **Ordinary Shares**). All of the Ordinary Shares have equal voting and economic rights**.** Residents and non-residents of Spain may hold and vote shares of the Issuer subject to the restrictions set forth below. As of the date of this Offering Circular, there are no outstanding issuances of convertible instruments made by Bankia or any of the companies of its Group.

As of the date of this Offering Circular, the only outstanding issuance of convertible instruments made by the Issuer is the €750,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities completed by the Issuer on 11 July 2017, which represented Bankia's first issuance of Additional Tier 1 instruments.

Form and Transfer

The shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise their shareholders' rights, though joint holders are jointly and severally liable vis-à-vis the Issuer for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry of shares reflecting for each of its participating entities (*entidades participantes*) the number of shares held by such entities for their own account, as well as the amount of such shares held on behalf of their customers. Each participating entity in turn maintains a detailed register of the owners of such shares. The shares must be entered in the corresponding register in the name of the person or persons that own them.

As a general rule, transfers of shares quoted on a Spanish Stock Exchange must be made through or with the participation of a member of a Spanish Stock Exchange that is an authorised broker or dealer by recording these transfers in the book-entry registry maintained by Iberclear and its participating entities. The transfer of shares may be subject to certain fees and expenses.

Dividend and Liquidation Rights

Payment of dividends is proposed by the Board of Directors and must then be authorised by the Issuer's shareholders at a General Shareholders' Meeting. Shareholders participate in such dividends for each year from the date such dividends are agreed by a General Shareholders' Meeting. Spanish law requires each company to contribute at least 10 per cent. of its profits for the year to a legal reserve each year until the balance of such reserve is equivalent to at least 20 per cent. of such company's issued share capital. Company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. According to Spanish law, dividends may only be paid out from the portion of profits (after the necessary transfer of legal reserves) or distributable reserves that exceed the Issuer's amortisable goodwill and its incorporation, research and development expenses, and only if the value of the Issuer's net worth is not, and as a result of distribution would not be, less than its share capital plus legal reserve. In accordance with Article 947 of the Spanish Commercial Code of 22 August 1885, as amended, the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

With regard to the tax implications derived from dividends paid by the Issuer. See "*Taxation—Taxation on Ownership and Transfer of Ordinary Shares—Direct taxation—Taxation of dividends*".

Upon the Issuer's liquidation, its shareholders would be entitled to receive proportionately any assets remaining after the payment of the Issuer's debts and taxes and expenses of the liquidation.

The following table sets forth the dividends distributed by the Issuer in 2016, 2017 and 2018:

DIVIDENDS	2018	2017	2016
Date	20/04/2018	31/03/2017	31/03/2016
Gross per share	€0.11024	€0.02756	€0.02625
Net per share	€0.0892944	€0.0223236	€0.0212625
Total amount (in millions)	€338,0	€315.9	€300.7
Currency	Euro	Euro	Euro
Class	Ordinary	Ordinary	Ordinary
Concept	Results 2017	Results 2016	Results 2015
Ex-dividend Date	18/04/2018	29/03/2017	31/03/2016

Attendance and Voting at General Shareholders' Meetings

The holders of 500 or more shares are entitled to attend the General Shareholders' Meeting. Shares may be voted by written proxy, and proxies may be given to another person. Proxies must be in writing and are valid only for a single meeting, subject to limited exceptions under the Spanish Companies Act.

Each share of the Issuer's share capital entitles the shareholder to one vote.

Pursuant to the Issuer's bylaws, the Issuer's General Shareholders' Meeting Regulations and the Spanish corporate law, ordinary annual general shareholders' meetings shall be held during the first six months of each financial year on a date fixed by the Board of Directors. Extraordinary general shareholders' meetings may be called by the Board of Directors whenever it deems appropriate, or at the request of shareholders representing at least 3 per cent. of the Issuer's issued share capital. Notices of all general shareholders' meetings will be published in the Commercial Registry's Official Gazette (*Boletín Oficial del Registro Mercantil*) or in one of the main newspapers of Spain, on Bankia's corporate website and on the website of CNMV, at least one month's prior to the date when the meeting is to be held, except as discussed in the following paragraph.

The interval between the first and second calls for a General Shareholders' Meeting must be at least 24 hours. The notice must include the date and place of the first call, the agenda of the meeting, the date on which shareholders need to be registered as such in order to attend and vote at the meeting, the place and form in which information related to the proposed resolutions can be obtained by the shareholders, the webpage where such information will be available, and clear instructions on how shareholders can attend and vote in the General Shareholders' Meeting. It may also state the date on which, if applicable, the meeting is to be held on the second call.

Shareholders representing at least 3 per cent. of the share capital of the Issuer have the right to request the publication of an amended notice including one or more additional agenda items to the Ordinary General Shareholders' Meeting and to add new resolution proposals to the agenda of any General Shareholders' Meeting, within the first five days following the publication of the agenda.

At Ordinary General Shareholders' Meetings, shareholders are asked to approve the financial statements for the previous fiscal year, the management and the application of the profit or loss attributable to the Issuer. All other matters that can be decided by a General Shareholders' Meeting may be addressed at either Ordinary or Extraordinary General Shareholders' Meetings. Shareholders can vote on these matters at an Ordinary General Shareholders' Meeting if such items are included on the meeting's agenda. The by-laws of the Issuer provide that, in order to facilitate the shareholders' attendance to the meetings, shareholders shall be provided with registered admission cards (*tarjetas de admisión*). Admission cards can be obtained at any time up to five days before a given General Shareholders' Meeting. Admission cards include the number of votes corresponding to their holders at the relevant General Shareholders' Meeting.

The by-laws of the Issuer and the Spanish Companies Act provide that, on the first call of a General Shareholders' Meeting, a duly constituted General Shareholders' Meeting requires a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy. On the second call, there is no quorum requirement.

Resolutions relating to ordinary matters shall be approved by a simple majority of the voting shares represented in person or by proxy at the General Shareholders' Meeting, and a resolution shall be deemed approved when it obtains more votes in favour than against of the share capital represented in person or by proxy.

However, the Spanish Companies Act and the by-laws of the Issuer provide that the consideration of extraordinary matters such as the increase and reduction of share capital, transformation, merger, split-off, the overall assignment of assets and liabilities and the relocation of the registered office abroad or the exclusion or limitation of pre-emption rights, and amendment of the by-laws in general require a quorum of at least 50 per cent. of the issued voting share capital, present in person or by proxy, on the first call and a quorum of at least 25 per cent. of the issued voting share capital, present in person or by proxy, on the second call.

These extraordinary matters shall be approved by the favourable vote of more than half of the votes corresponding to the shares represented in person or by proxy at the General Shareholders' Meeting, except when on second call shareholders representing less than 50 per cent. of the subscribed share capital with the right to vote are in attendance, in which event the favourable vote of two thirds of the share capital present in person or by proxy at the General Shareholders' Meeting shall be required.

A General Shareholders' Meeting at which 100 per cent. of the share capital is present or represented is validly constituted even if no notice of such meeting was given, and, upon unanimous agreement, shareholders may consider any matter at such meeting. A resolution passed in a General Shareholders' Meeting is binding on all shareholders. However, it may be contested if such resolution is: (i) contrary to Spanish laws or the company's by-laws; or (ii) prejudicial to the company's interests and beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, Directors and interested third parties. In the case of resolutions prejudicial to the company's interests or contrary to its by-laws, such right is extended to shareholders who attended the General Shareholders' Meeting and recorded their opposition in the minutes of the meeting, to shareholders who were absent and to those unlawfully prevented from casting their vote, as well as to members of the Board of Directors. In certain circumstances (such as a substantial modification of corporate purpose or change of the corporate form, transfer of registered office abroad, intra-European Union merger with transfer of registered office to another European Union country or incorporation of a limited liability European holding company if the dissenting shareholder is a partner of the promoter companies), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were to be exercised, the company would be required to purchase or offset the relevant share ownership at prices determined in accordance with established formula or criteria relating to the average price of the shares in the Spanish Stock Exchanges within certain periods of time.

Under the Spanish corporate law, shareholders who voluntarily aggregate their shares so that the share capital so aggregated is equal to or greater than the result of dividing the total share capital by the number of Directors have the right to appoint a corresponding proportion of the members of the Board of Directors, provided that the relevant vacancy or vacancies exist within the Board and the shareholders and Directors satisfy certain other corporate and regulatory requirements (including those described under "*Legal Restrictions on Acquisitions of Shares in Spanish Banks*" below). Shareholders who exercise this right may not vote on the appointment of other Directors. The appointment of Directors is subject to the approval of the relevant supervisory authority.

Preferential subscription Rights and Increase of Share Capital

Pursuant to Spanish law, shareholders have preferential subscription rights to subscribe for any new shares and for bonds convertible into shares. However, a resolution passed at a General Shareholders' Meeting or a meeting of the Board of Directors acting by delegation may, in certain circumstances, waive such preferential subscription rights, provided that the relevant requirements of Spanish law (particularly Articles 308, 504 and 505 of the Spanish Companies Act) are met. In any event, preferential subscription rights will not be available in the event of an increase in the share capital of the Issuer on a conversion of convertible bonds into shares, a merger in which new shares are issued as consideration or in the case of a capital increase with non-monetary contributions.

In the case of a listed company, under Articles 506 and 511 of the Spanish Companies Act, when the shareholders authorise the Board of Directors to issue new shares or bonds convertible into shares, they can also authorise the Board of Directors to not grant preferential subscription rights in connection with such new shares or bonds convertible into shares if it is in the best interest of the company.

Preferential subscription rights, when applying in connection with an approved issuance of new shares or convertible bonds will at the time be transferable, may be traded on the AQS of the Spanish Stock Exchanges and may be of value to existing shareholders because new shares and convertible bonds may be offered for subscription at prices lower than prevailing market prices.

The General Shareholders' Meeting held on 10 April 2018 resolved to delegate to the Issuer's Board of Directors, within five years: (i) the decision to increase its share capital by up to 50 per cent. of the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Act, and with the possibility of incomplete subscription pursuant to the provisions of Article 507 of the Spanish Companies Act; and (ii) the decision to waive such preferential subscription rights for capital increases up to 20 per cent. of its share capital.

The General Shareholders' Meeting held on 10 April 2018 resolved to delegate to the Issuer's Board of Directors, within five years: (i) the decision to issue fixed-income notes convertible into and/or exchangeable for Bank's shares in a maximum amount of €1,500 million and the execution of such issue pursuant to the provisions of Articles 285 to 290, 297.1.b) and 511 of the Spanish Companies Act; (ii) the decision to establish the criteria for the determination of the bases and modalities of the conversion; and (iii) the decision to establish the bases and modalities of the conversion with the possibility of waiving totally or partially the preferential subscription rights and increase its share capital by the amount necessary, with power of substitution in favour of the Executive Committee, rendering null and void the authorisations granted by the prior General Shareholders' Meetings.

Shareholder Suits

Shareholders in their capacity as shareholders may bring actions challenging resolutions adopted at General Shareholders' Meetings. The court of first instance in the company's corporate domicile has exclusive jurisdiction over shareholder suits.

Under the Spanish Companies Act, Directors are liable to the company and the shareholders and creditors of the company for acts and omissions contrary to Spanish law or the company's by-laws and for failure to carry out the duties and obligations required of Directors. Directors have such liability even if the transaction in connection with which the acts or omissions occurred is approved or ratified by the shareholders.

The liability of the Directors is joint and several, except to the extent any Director can demonstrate that he or she did not participate in decision-making relating to the transaction at issue, was unaware of its existence or being aware of it, did all that was possible to mitigate any damages or expressly disagreed with the decision-making relating to the transaction.

Legal Restrictions on Acquisitions of Shares in Spanish Banks

Certain provisions of Spanish law require the authorisation from the ECB prior to the acquisition by any individual or corporation of a significant holding of shares of a Spanish bank. The decision-making authority for the assessment of the proposed acquisition, formerly attributed to the Bank of Spain, now is vested with the ECB by virtue of Regulation No. 1024/2013.

Any natural or legal person or such persons acting in concert, who have taken a decision either to acquire, directly or indirectly, a significant holding (*participación significativa*) in a Spanish bank or to further increase, directly or indirectly, such a significant holding in a Spanish bank as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 30 per cent. or 50 per cent. or so that the bank would become its subsidiary, must first notify the ECB (through the Bank of Spain), indicating the size of the intended holding and other relevant information. A significant holding for these purposes is defined as a direct or indirect holding in a Spanish bank which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that bank. In accordance with Article 23 of Royal Decree 84/2015, of 13 February, in any case, "*significant influence*" shall be deemed to exist when there is the capacity to appoint or dismiss a board member.

As soon as the Bank of Spain receives the notice, the Bank of Spain will request the Spanish Anti-Money Laundering Authority (*Servicio Ejecutivo de la Comisión para la Prevención del Blanqueo de Capitales e Infracciones Monetarias* - **SEPBLAC**) for a report, and the SEPBLAC will submit such report within 30 business days from the day following the day of receipt of such request.

If the acquisition is carried out and the required notice is not given to the Bank of Spain or if the acquisition is carried out before the 60 business days' period following the giving of notice elapses, or if the acquisition is opposed by the ECB, then there shall be the following consequences: (A) the voting rights corresponding to the acquired shares may not be exercised or, if exercised, will be deemed null, (B) the ECB may seize control of the bank or replace its Board of Directors, and (C) a fine may be levied on the acquirer.

The ECB has 60 business days after the receipt of any such notice (the Bank of Spain will acknowledge receipt in written within two business days from the date of receipt of the notification by the Bank of Spain to the extent such notification includes all the information required by Article 24 of Royal Decree 84/2015) to object to a proposed transaction. In case the notification does not have all the information required, the acquirer will be required to provide the outstanding information within ten business days. The objection by the ECB may be based on finding the acquirer unsuitable on the basis of its commercial or professional reputation, its solvency or the transparency of its corporate structure, among other things. If no such objection is raised within the 60 business day-period, the authorisation is deemed to have been granted.

The above assessment term may be suspended in one occasion, between the request of information and the submission of information, for a maximum term of 20 business days (or, under certain circumstances, this term may be of 30 business days).

Any natural or legal person, or such persons acting in concert, who has acquired, directly or indirectly, a holding in a Spanish bank so that the proportion of the voting rights or of the capital held reaches or exceeds 5 per cent., must immediately notify in writing the Bank of Spain and the relevant Spanish bank, indicating the size of the acquired holding.

Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a qualifying holding in a Spanish bank must first notify the Bank of Spain, indicating the size of his intended reduced holding. Such a person shall likewise notify the Bank of Spain if he has taken a decision to reduce his qualifying holding so that the proportion of the voting rights or of the capital held would fall below 20 per cent., 30 per cent. or 50 per cent. or so that the bank would cease to be its subsidiary. Failure to comply with these requirements may lead to sanctions being imposed on the defaulting party.

Spanish banks are required, on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below one of the thresholds referred to above, inform the Bank of Spain of those acquisitions or disposals.

Furthermore, credit entities are required to inform the Bank of Spain as soon as they become aware of any acquisition or transfer of their share capital that crosses any of the above percentages. In addition, credit entities must inform the Bank of Spain, during the month following each natural quarter, about their shareholding specifying all shareholders considered financial institutions by the end of such month or those who have more than 0.25 of the bank's share capital (or 1 per cent. in case of credit unions (*cooperativas de crédito*)).

If the Bank of Spain determines at any time that the influence of a person who owns a qualifying holding of a bank may adversely affect that bank's management or financial situation, it may request that the Spanish Ministry of Industry, Economy and Competitiveness: (1) suspend the voting rights of such person's shares for a period not exceeding three years; (2) seize control of the bank or replace its Board of Directors; or (3) in exceptional circumstances revoke the bank's licence. A fine may also be levied on the person owning the relevant significant shareholding.

Furthermore, any person that has directly or indirectly acquired 5 per cent. or more of the share capital of a Spanish credit institution must immediately inform in writing both to the Bank of Spain and to the relevant credit institution indicating the amount of the shareholding.

Tender Offers

Law 6/2007, of 12 April, amending the Securities Market Law in respect of takeover bids and issuers' transparency (**Law 6/2007**), modified the rules for takeover bids. This Law, which came into effect on 13 August 2007, partially transposed into the Spanish legal system Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

The rules replaced the traditional system where launching a takeover bid was compulsory prior to acquiring a significant shareholding in the target company and partial bids were permitted for a regime where takeover bids must be made for all the share capital after obtaining the control of a listed company (i.e. 30 per cent. of the voting rights or appointment of more than one-half of the members of the company's board of directors) whether such control is obtained by means of an acquisition of securities or an agreement with other holders of securities.

The above does not prevent parties from making voluntary bids for a number that is less than the totality of securities in a listed company.

Law 6/2007 also regulates, among other things: (i) obligations for the board of directors of the offeree company in terms of preventing the takeover bid (passivity rule); and (ii) the squeeze-out and sell-out rights when the offeror is a holder of securities representing at least 90 per cent. of the voting capital of the offeree company and the prior takeover bid has been accepted by holders of securities representing at least 90 per cent. of the voting rights covered by the bid.

Royal Decree 1066/2007 on rules applicable to takeover bids for securities further developed the regulations on takeover bids established by Law 6/2007, completing the amendments introduced by Law 6/2007, in order to ensure that takeover bids are carried out within a comprehensive legal framework and with absolute legal certainty. The Royal Decree contains provisions regarding: (i) the scope and application to all takeover bids, whether voluntary or mandatory, for a listed company; (ii) the rules applicable to mandatory takeover bids when control of a company is obtained; (iii) other cases of takeover bids, such as bids for de-listing of securities and bids that must be made when a company wishes to reduce capital through the acquisition of its own shares for subsequent redemption thereof; (iv) the consideration and guarantees offered in a bid; (v) stages of the procedure that must be followed in a takeover bid; (vi) the mandatory duty of passivity of the offeree company's board of directors and the optional regime of neutralisation of other preventive measures against bids; (vii) changes to, withdrawal of, and cessation of effects of the bid; (viii) the acceptance period, the calculation of the acceptances received and the settlement of the bid; (ix) the procedures applicable to competing offers; (x) the rules for squeeze-outs and sell-outs; and (xi) certain rules on supervision, inspection and sanctions applicable with respect to the regulations on takeover bids.

See risk factor "*Holders may be obliged to make a takeover bid in case of the Trigger Event if they take delivery of Ordinary Shares"*

Reporting Requirements

Pursuant to Royal Decree 1362/2007, of 19 October, implementing the Spanish Securities Market Act on transparency issues (the **Royal Decree 1362/2007**), any individual or legal entity which, by whatever means, purchases or transfers shares which grant voting rights in the Issuer, must notify the Issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a threshold of 3.0 per cent., 5.0 per cent., 10.0 per cent., 15.0 per cent., 20.0 per cent., 25.0 per cent., 30.0 per cent., 35.0 per cent., 40.0 per cent., 45.0 per cent., 50.0 per cent., 60.0 per cent., 70.0 per cent., 75.0 per cent., 80.0 per cent. and 90.0 per cent. of the Issuer's total voting rights.

The individual or legal entity obliged to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four trading days from the date on which the individual or legal entity acknowledged or should have acknowledged the circumstances that generate the obligation to notify. Royal Decree 1362/2007 deems that the obliged individual or legal entity should have acknowledged the aforementioned circumstance within two trading days from the date on which the transaction was entered into, regardless of the date on which the transaction takes effect.

Should the individual or legal entity effecting the transaction be a non-resident of Spain, notice must also be given to the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (a department of the Ministry of Economy, Industry and Competitiveness). See "*Restrictions on Foreign Investments*" below.

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity which acquires, transfers or holds, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the Issuer and the CNMV of the holding of a significant stake in accordance with applicable regulations.

Further, following the implementation of Directive 2013/50/EU of the European Parliament and of the Council, of 22 October 2013 (the **Directive 2013/50/EU**) in Spain by means of the Second Final Provision of Royal Decree 878/2015, currently in force, the scope of financial instruments which are to be disclosed has been expanded. Pursuant to Royal Decree 1362/2007, as amended, financial instruments with similar economic effect to shares and entitlement to aggregate shares (even cash settled) are to be disclosed if they reach the relevant thresholds. Additionally, aggregation rules currently impose the obligation to aggregate holding of shares and holding of financial instruments when calculating the holding.

Should the individual or the legal entity effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of 5 July), the threshold that triggers the obligation to disclose the acquisition or transfer of the Issuer's Ordinary Shares is reduced to one per cent. (and successive multiples thereof).

All members of the Board of Directors must report to both the Issuer and the CNMV any percentage or number of voting rights in the Issuer held by them at the time of becoming or ceasing to be a member of the Board of Directors within five trading days. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of the Issuer's shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any of compensation plans. Members of the senior management must also report any stock-based compensation that they may receive pursuant to any of compensation plans or any subsequent amendment to such plans.

In addition, pursuant to Article 19 of Regulation (EU) No 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse (the **MAR**), persons discharging managerial responsibilities and any persons having a close link (*vínculo estrecho*) with any of them must similarly report to the issuer and the CNMV any acquisition or disposal of the issuer's shares, derivative or financial instruments linked to the issuer's shares regardless of size, within three business days after the date the transaction is made. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, of 11 November (implementing European Directive 2004/72/EC) (the **Royal Decree 1333/2005**) developing the Spanish Securities Market Law, regarding market abuse, which defines Senior Management (*Directivos*) as those "high-level employees in positions of responsibility with regular access to inside information *(información privilegiada)* related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer".

Moreover, pursuant to Article 30.6 of Royal Decree 1362/2007, in the context of a takeover bid, the following transactions should be notified to the CNMV: (i) any acquisition reaching or exceeding 1.0 per cent. of the voting rights of the issuer, and (ii) any increase or decrease in the percentage of voting rights held by holders of 3.0 per cent. or more of the voting rights of the issuer. The CNMV will immediately make public this information.

Shareholder agreements

The Spanish Securities Market Law and Articles 531, 533 and 535 of the Spanish Companies Act require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a General Shareholders' Meeting or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares of listed companies. If the Issuer's shareholders enter into such agreements with respect to the Issuer's Ordinary Shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and to the CNMV, file such agreements with the appropriate commercial registry and publish them through the filing of a relevant event (*hecho relevante*). Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the Spanish Securities Market Law.

Such a shareholders' agreement will have no effect with respect to the regulation of the right to vote in General Shareholders' Meetings and restrictions or conditions on the free transferability of shares and bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the company.

Net Short Positions

Pursuant to Regulation (EU) No. 236/2012 of the European Parliament and the Council, of 14 March, on Short Selling and certain aspects of credit default swaps (the **Regulation 236/2012**), any net short position on shares listed on the Spanish Stock Exchanges that equals 0.2 per cent. of the relevant issuer's share capital and any increases or reductions thereof by 0.1 per cent. are required to be disclosed to the CNMV by no later than 15.30 on the first trading day following the transaction. If the net short position reaches 0.5 per cent., the CNMV will disclose the net short position to the public. Regulation 236/2012 restricts uncovered short sales in shares.

Notwithstanding the foregoing, in accordance with Regulation 236/2012, under exceptional circumstances, the CNMV may require natural or legal persons who have net short positions in relation to a specific financial instrument or class of financial instruments to notify it or to disclose to the public details of the position where the position reaches or falls below a notification threshold fixed by the CNMV.

In addition, as was the case in 2012, the CNMV may impose restrictions on short selling and similar transactions in exceptional circumstances in accordance with Regulation 236/2012.

Share Repurchases

Pursuant to the Spanish corporate law, the Issuer may only repurchase the Issuer's own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorised by the General Shareholders' Meeting by a resolution establishing the acquisition mechanisms, the maximum number of shares to be acquired, the minimum and maximum acquisition price and the duration of the authorisation, which may not exceed five years from the date of the resolution;
- the aggregate par value of the shares repurchased, together with the aggregate par value of the shares already held by the Issuer and its subsidiaries, must not exceed 10 per cent. of its share capital;
- the acquisition may not lead to net equity being lower than the share capital plus non-distributable reserves in accordance with Spanish corporate law and the by-laws of the Issuer; and
- the Ordinary Shares repurchased must be fully paid up, and must be free of ancillary contributions (*prestaciones accesorias*).

Treasury shares do not have voting rights or economic rights (e.g., the right to receive dividends and other distributions and liquidation rights), except the right to receive bonus shares, which will accrue proportionately to all of the Issuer's shareholders. Treasury shares are counted for purposes of establishing the quorum for General Shareholders' Meetings and majority voting requirements to pass resolutions at General Shareholders' Meetings.

The MAR repealed, among others, Directive 2003/6/EC of the European Parliament and the Council, dated 28 January 2003, on insider dealing and market manipulation, establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. This regulation maintains an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU Member State. Commission Delegated Regulation (EU) 2016/1052, of 8 March 2016, implements the MAR with regard to the regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures. According to the provisions included in the Delegated Regulation, in order to benefit from the exemption, an issuer implementing a buy-back program must comply with the following requirements.

a) Prior to the start of trading in a buy-back program, the issuer must ensure the adequate disclosure of the following information:

   - the purpose of the program. According to Article 5.2 of the MAR, the buy-back program must have as its sole purpose (a) to reduce the capital of the issuer; (b) to meet obligations arising from debt financial instruments convertible into equity instruments; or (c) to meet obligations arising from share option programs, or other allocations of shares, to employees or to members of the administrative, management or supervisory bodies of the issuer or of an associate company;
   - the maximum pecuniary amount allocated to the buy-back program;
   - the maximum number of shares to be acquired; and
   - the period for which authorization for the buy-back program has been granted.

b) The issuer must ensure that the transactions relating to the buy-back program meet the conditions on Article 3 of the Delegated Regulation. Specifically, that the purchase price is not higher than the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out. Furthermore, issuers must not purchase on any trading day more than 25 per cent. of the average daily volume of shares on the corresponding trading venue.

c) Issuers shall not, for the duration of the buy-back program, engage on (a) selling of own shares; (b) trading during the closed periods referred to in Article 19.11 of the MAR; and (c) trading where the issuer has decided to delay the public disclosure of inside information.

In addition, on 19 December 2007, the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbour for the purposes of market abuse regulations.

On 18 July 2013, the CNMV published certain indicative guidelines in relation to discretionary operations with treasury shares carried out by issuers of securities. The CNMV recommends the observance by issuers of some criteria in connection with (i) the way to carry these transactions (volume, price, timeframe and internal organisation and control) and (ii) the information to be provided to the supervisor and the market. These guidelines have been observed in all the transactions that the Bank has carried out since their publication.

Moreover, pursuant to Article 77 of CRR, the Issuer shall obtain the prior authorisation from the ECB in order to reduce, redeem or repurchase its own shares. Rules and conditions to obtain such authorisation are regulated by Article 77 of CRR and further developed by Commission Delegated Regulation 241/2014, of 7 January 2014.

The Issuer is required to report to the CNMV any acquisition of its own shares which, together with all other acquisitions since the last notification, reaches or exceeds 1 per cent. of its share capital (irrespective of whether any own shares have been sold in the same period). In such circumstances, the notification must include the number of shares acquired since the last notification (detailed by transaction), the number of shares sold (detailed by transaction) and the resulting net holding of treasury shares.

Provision of Information to Shareholders

Under Spanish law, shareholders are entitled to receive certain information, including information relating to any amendment of the by-laws, an increase or reduction in the share capital, the approval of the financial statements and other major corporate events or actions.

Foreign Investment and Exchange Control Regulations

Restrictions on Foreign Investment

Spain has traditionally regulated foreign currency movements and foreign investments. However, since the end of 1991, Spain has moved into conformity with European Union standards regarding the movement of capital and services. On 23 April 1999, a new regulation on foreign investments (Royal Decree 664/1999) was approved in conjunction with the Spanish Foreign Investment Law 18/1992, to bring the existing legal framework in line with the provisions of the Treaty of the European Union. As a result, exchange controls and foreign investments have been, with certain exceptions, completely liberalised.

Subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies and transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls), and need only file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments within the Ministry of Economy and Competitiveness following the investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, as it is the case of the Issuer, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares in book-entry form have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market, as well as investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50 per cent. of the capital of the Spanish company in which the investment is made.

The Spanish Council of Ministers, acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorisation from the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of 4 July 2003, which has as its purpose the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering (**Law 19/2003**), generally provides for the liberalisation of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents of Spain in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of the Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Finally, in addition to the notices relating to significant shareholdings that must be sent to the relevant company, the CNMV and the relevant Spanish Stock Exchanges, as described in this section under "*Reporting Requirements*", foreign investors are required to provide such notices to the Registry of Foreign Investments.

Exchange control regulations

Pursuant to Royal Decree 1816/1991, of 20 December, relating to economic transactions with non-residents as amended by Royal Decree 1360/2011 of 7 October, and EC Directive 88/361/EEC, charges, payments or transfers between non-residents and residents of Spain must be made through a registered entity, such as a bank or another financial institution registered with the Bank of Spain and/or the CNMV (*entidades registradas*), through bank accounts opened abroad with a foreign bank or a foreign branch of a registered entity, in cash or by check payable to bearer. All charges, payments or transfers which exceed €6,010 (or its equivalent in another currency), if made in cash or by check payable to bearer, must be notified to the Spanish exchange control authorities.

TAXATION

The following is a general description of certain tax considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities whether in those countries or elsewhere, nor does it address the tax consequences applicable to all investor categories, some of whom may be subject to special rules. Prospective Holders of the Preferred Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Spain of acquiring, holding and disposing of Preferred Securities and receiving payments of interest, principal and/or other amounts under the Preferred Securities and with converting them into Ordinary Shares as well as the tax aspects associated with owning and subsequently transferring the Ordinary Shares. This summary is based upon the law as in effect on the date of this Offering Circular 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 Preferred Securities, or any person through which an investor holds Preferred Securities, of a custodian, collection agent or similar person in relation to such Preferred Securities 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

Taxation in the Kingdom of Spain

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

Introduction

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

If:

(a) of general application, Additional Provision One of Law 10/2014, of 26 June on the management, supervision and solvency of credit institutions (**Law 10/2014**), as well as Royal Decree 1065/2007 (**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;

(b) for individuals with tax residency in Spain who are personal income tax (**Personal Income Tax**) tax payers, Law 35/2006, of 28 November, on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Resident Income Tax Law and Wealth Tax Law, as amended (the **Personal Income Tax Law**), and Royal Decree 439/2007, of 30 March, promulgating the Personal Income Tax Regulations, as amended, along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended;

(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 Law **CIT Law**), and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations (the **CIT Regulations**); and

(d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax (**Non-Resident Income Tax**) taxpayers, Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the Non-Resident Income Tax Law, as amended (the **Non-Resident Income Tax Law**) and Royal Decree 1776/2004, of 30 July, promulgating the Non-Resident Income Tax Regulations, as amended, along with Law 19/1991, of 6 June, on Wealth Tax as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended.

Whatever the nature and residence of the Holder of a beneficial interest in the Preferred Securities, the acquisition and transfer of the Preferred Securities as well as the subscription, acquisition and subsequent transfer of Ordinary Shares will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with

the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from value added tax, in accordance with Law 37/1992, of 28 December regulating such tax.

Tax treatment of the Preferred Securities

1. Individuals with tax residency in Spain

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

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently (i) 19 per cent. for taxable income up to €6,000, (ii) 21 per cent. for taxable income between €6,001 and €50,000, and (iii) 23 per cent. for taxable income exceeding €50,000. As a general rule, both types of income are subject to a withholding tax on account at the current rate of 19 per cent.

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

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

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

According to Section 44.5 of Royal Decree 1065/2007, the Issuer will make interest payments to individual holders who are resident for tax purposes in Spain without withholding provided that the relevant information about the Preferred Securities set out in Annex I is submitted by the Paying and Conversion Agent in a timely manner. In addition, income obtained upon the transfer, redemption or repayment of the Preferred Securities may also be paid without withholding.

Notwithstanding the above, in the case of Preferred Securities held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. which will be made by the depositary or custodian.

In any event, individual holders may credit the withholding against their Personal Income Tax liability for the relevant fiscal year.

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are individuals resident in Spain for tax purposes.

1.2 Wealth Tax (Impuesto sobre el Patrimonio)

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*)). Therefore, they should take into account the value of the Preferred Securities which they hold as at 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 4 of Royal Decree-Law 3/2016, dated 2 December 2016 (**RDL 3/2016**) a full exemption on Wealth Tax will apply as of 2018. However, for the tax period 2018 the exemption has been

revoked by the General State Budget Law for 2018 passed by Law 6/2018, of 3 July (*Ley 6/2018, de 3 de Julio, de Presupuestos Generales del Estado para el año 2018)*.

1.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or 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.

2. Legal Entities with tax residency in Spain

2.1 Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities are subject to CIT in accordance with the rules for CIT.

The current general tax rate according to CIT Law is 25 per cent. This general rate will not be applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions (which will be taxed at the rate of 30 per cent.). Special rates apply in respect of certain types of entities (such as qualifying collective investment institutions).

In accordance with Section 44.5 of Royal Decree 1065/2007 there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold on income payments to Spanish CIT taxpayers provided that the relevant information about the Preferred Securities set out in Annex I is submitted by the Paying and Conversion Agent in a timely manner.

However, in the case of Preferred Securities held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities and income derived from the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. such withholding will be made by the depositary or custodian, if the Preferred Securities do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) dated 27 July 2004 which requires a withholding to be made.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against their final CIT liability.

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are legal persons or entities resident in Spain for tax purposes.

2.2 Wealth Tax (Impuesto sobre el Patrimonio)

Spanish resident legal entities are not subject to Wealth Tax.

2.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities with tax residency in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Preferred Securities in their taxable income for Spanish CIT purposes under certain circumstances.

3. Individuals and Legal Entities with no tax residency in Spain

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

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

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

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are the same as those for Spanish CIT taxpayers.

The tax treatment applicable to the income obtained will be the one described above under *Taxation in the Kingdom of Spain—Legal entities with tax residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*.

(b) Non-Spanish resident investors not acting through a permanent establishment in Spain

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax and from withholding tax. In order for such exemption to apply it is necessary to comply with the information procedures, in the manner detailed under *Information about the Preferred Securities in Connection with Payments*- as set out in article 44 of Royal Decree 1065/2007.

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Preferred Securities through a permanent establishment in Spain.

3.2 Wealth Tax (Impuesto sobre el Patrimonio)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax during the tax year 2018, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

However, non-Spanish resident individuals will be exempt from Wealth Tax in respect of the Preferred Securities which income is exempt from Non-Resident Income Tax as described above.

In accordance with article 4 of RDL 3/2016 a full exemption on Wealth Tax will apply as of 2018. However, for the tax period 2018 the exemption has been revoked by the General State Budget Law for 2018 passed by Law 6/2018, of 3 July (*Ley 6/2018, de 3 de Julio, de Presupuestos Generales del Estado para el año 2018)*.

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 are located, can be exercised or must be fulfilled.

Non-Spanish resident legal entities are not subject to Wealth Tax.

3.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation. The taxpayer is the transferee. The applicable tax rate, after applying all relevant factors, ranges between 7.65 per cent. and 81.6 per cent. for individuals, although the final tax rates may vary depending on any applicable regional tax laws.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area Member State, depending on the specific situation, the applicable rules could be those corresponding to the relevant autonomous regions according to the law and therefore some tax benefits could reduce the effective tax rate. As such, investors should consult their tax advisers.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. 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.

4. Information about the Preferred Securities in Connection with Payments

As at the date of this Offering Circular, the Issuer is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to the Preferred Securities. In accordance with Section 44 of Royal Decree 1065/2007, for the purpose of preparing the annual return referred to above, certain information with respect to the Preferred Securities must be submitted to the Issuer before the close of business on the Business Day immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Preferred Securities is due.

Such information would be the following:

(a) identification of the Preferred Securities (as applicable) in respect of which the relevant payment is made;

(b) date on which relevant payment is made;

(c) the total amount of the relevant payment; and

(d) the amount of the relevant payment and to each entity that manages a clearing and settlement system for securities situated outside Spain.

In particular, the Paying and Conversion Agent must certify the information above about the Preferred Securities by means of a certificate in the form of which is attached as Annex I of this Offering Circular.

In light of the above, the Issuer and the Paying and Conversion Agent have arranged certain procedures to facilitate the collection of information concerning the Preferred Securities. If, despite these procedures, the relevant information is not received by the Issuer by the close of business on the Business Day immediately preceding the date on which any payment of interest, principal or any amounts in respect of the early redemption of the Preferred Securities is due, the Issuer may be required to withhold at the applicable rate (as at the date of this Offering Circular, 19 per cent.) from any payment in respect of the relevant Preferred Securities as to which the required information has not been provided. In that event the Issuer will pay such additional amounts as will result in receipt by the Holders of such amount as would have been received by them had no such withholding been required.

If, before the tenth day of the month following the month in which interest is paid, the Principal Paying Agent provides such information, the Issuer will reimburse the amounts withheld.

Notwithstanding the foregoing, the Issuer has agreed that, in the event that withholding tax was required by law, the Issuer would pay such additional amounts as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except as provided in Condition 13(b).

Finally, in the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will notify the Holders of such information procedures and their implications, as the Issuer may be required to apply

withholding tax on distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

5. Conversion of the Preferred Securities into Ordinary Shares

5.1 Individual with tax residency in Spain

Income earned on the conversion of the Preferred Securities to Ordinary Shares, computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange, will be considered as 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 Personal Income Tax Law.

Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income obtained.

Any income obtained in the conversion will not be subject to withholding tax.

The tax treatment will be the one referred to under "*Tax treatment of the Preferred Securities—Individuals with tax residency in Spain—Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)*".

5.2 Legal entities with tax residency in Spain

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities will be computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

Such income will be subject to CIT at the general rate applicable from time to time (currently 25 per cent.) in accordance with the rules for this tax. Any income derived from the conversion will not be subject to withholding tax.

The tax treatment will be the one referred to under *Tax treatment of the Preferred Securities—Legal entities with tax residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*.

5.3 Individuals and legal entities with no tax residency in Spain

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

Non-Spanish resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

(f) Non-Spanish resident investors not acting though a permanent establishment in Spain

Income obtained by non-Spanish resident investors on the conversion of the Preferred Securities to Ordinary Shares will be computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

The tax treatment applicable to the income obtained will be the one described above under "*Tax treatment of the Preferred Securities—Individuals and Legal Entities with no tax residency in Spain—Non-Spanish resident investors not acting through a permanent establishment in Spain* ".

Taxation on ownership and transfer of the Ordinary Shares

6. Individuals with tax residency in Spain

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

(g) Taxation on dividends

According to the Spanish Personal Income Tax Law, the following, among others, shall be treated as gross capital income: income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his capacity as shareholder.

Gross capital income shall be reduced by any administration and custody expenses (but not by those incurred in individualised portfolio management) and the net amount shall be included in the relevant Spanish Holder's savings taxable base and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

The payment of dividends or any other distribution will be generally subject to a withholding tax at the rate of 19 per cent. Such withholding tax will be deductible from the final Personal Income Tax liability, and if the amount of tax withheld is greater than the amount of the final Personal Income Tax liability, the taxpayer will be entitled to a refund of the excess withheld in accordance with the Personal Income Tax Law.

(h) Taxation on capital gains

Gains or losses recorded by a Spanish Holder, as a result of the transfer of listed shares which represent a participation in a company's equity, will qualify for the purposes of the Personal Income Tax Law as capital gains or losses and will be subject to taxation according to the general rules applicable to capital gains. The amount of capital gains or losses shall be the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the listed value of the share as of the transfer date or, if higher, the agreed transfer price (less any fees or taxes incurred).

Capital gains arising from the transfer of shares shall be included in such Spanish Holder's savings taxable base corresponding to the period in which the transfer takes place, and any such gains will be taxed at the tax rate applicable from time to time, currently (i) 19 per cent. for taxable income up to €6,000, (ii) 21 per cent. for taxable income between €6,000.01 to €50,000 and (iii) 23 per cent. for taxable income in excess of €50,000. Exceptionally, capital gains arising from the transfer of shares are not subject to withholding tax on account of Personal Income Tax.

Losses arising from the transfer of shares admitted to trading on certain official stock exchanges will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses will be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

6.2 Wealth Tax (Impuesto sobre el Patrimonio)

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*). Therefore, they should take into account the value of the Ordinary Shares which they hold as at 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 4 of RDL 3/2016 a full exemption on Wealth Tax will apply as of 2018. However, for the tax period 2018 the exemption has been revoked by the General State Budget Law for 2018 passed by Law 6/2018, of 3 July (*Ley 6/2018, de 3 de Julio, de Presupuestos Generales del Estado para el año 2018)*.

6.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals with tax residency in Spain who acquire ownership or other rights over any Ordinary Shares 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.

7. Legal entities with tax residency in Spain and non-Spanish resident investors acting through a permanent establishment in Spain to which the Ordinary Shares are attributable

7.1 Corporate Income Tax (Impuesto sobre Sociedades)

(i) Taxation on dividends

According to Section 10 of the CIT Law, dividends from the Issuer or a share of the Issuer's profits received by CIT taxpayers, or by Non-Resident Income Tax taxpayers who operate, with respect to the Issuer's shares, through a permanent establishment in Spain, to which such shares are attributable, less any expenses inherent to holding the shares, shall be included in the CIT taxable base. The general CIT tax rate is currently 25 per cent.

Dividends or profit distributions in respect of the shares obtained by Spanish CIT taxpayers that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer's share capital or an acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant distribution date or it commits to hold the participation for the time needed to complete such one-year holding period, will be exempt as a general rule.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, Spanish CIT taxpayers must have an indirect stake in those entities that complies with the requirements described in the previous paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer, and prepare consolidated financial statements.

Should that be the case and provided that the minimum one-year holding period requirement is complied with on the distribution date, dividends will not be subject to withholding tax. Otherwise, dividends will be taxed at the applicable CIT tax rate of the taxpayer and a 19 per cent. withholding will apply. This CIT withholding will be credited against the taxpayer's annual CIT due, and if the amount of tax withheld is greater than the amount of the annual CIT due, the taxpayer will be entitled to a refund of the excess withheld.

(j) Taxation of capital gains

The gain or loss arising on transfer of the shares or from any other change in net worth relating to the shares will be included in the tax base of CIT taxpayers, or of Non-Resident Income Tax taxpayers who operate through a permanent establishment in Spain to which such shares are attributable, in the manner contemplated in Section 10 of the CIT Law, being taxed generally at a rate of 25 per cent.

CIT payers that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer's share capital or an acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant transfer date, capital gains will be exempt as a general rule. Otherwise, capital gains will be taxed at the applicable tax rate of the taxpayer.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, Spanish CIT taxpayers must have an indirect stake in those entities that complies with the requirements described in the precedent paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer and prepare consolidated financial statements.

Income deriving from share transfers is not subject to withholding on account of CIT.

7.2 Wealth Tax (Impuesto sobre el Patrimonio)

Spanish resident legal entities are not subject to Wealth Tax.

7.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

In the event of acquisition of shares free of charge by the CIT taxpayer, the income generated for the latter will likewise be taxed according to the CIT rules, the Inheritance and Gift Tax not being applicable.

8. Non-Spanish resident investors not acting through a permanent establishment in Spain to which the Ordinary Shares are attributable

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

(k) Taxation on dividends

Under Spanish law, dividends paid by a Spanish resident company to a non-Spanish Holder are subject to Spanish Non-Resident Income Tax, approved by the Non-Resident Income Tax Law, withheld at the source on the gross amount of dividends, currently at a tax rate of 19 per cent. However, certain corporate Holders resident in an EU Member State (other than a tax haven jurisdiction for Spanish tax purposes) may be entitled to an exemption from Non-Resident Income Tax dividend withholding tax to the extent that they are entitled to the benefits of the Non-Resident Income Tax provisions that implement the regime of the Council Directive (EU) 2015/121, of 27 January 2015, amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States. Such exemption may be available to the extent that the recipient of the dividends has held, directly or indirectly, at least 5 per cent. of the shares of the distributing entity (such minimum shareholding threshold could be lower in certain cases), or an acquisition cost higher than €20 million, without interruption for at least one year prior to the distribution date, and provided that other requirements (including specific anti-abuse rules that need to be analysed on a case-by-case basis and procedural formalities, such as the supply of a government-issued tax residence certificate) are met. Holders claiming the applicability of such exemption that have not met a minimum one-year holding period as of a given dividend distribution date (but who could meet such requirement afterwards) should be aware that the Non-Resident Income Tax Law requires the Issuer to withhold the applicable Non-Resident Income Tax on such dividends, and that such Holders will need to request a direct refund of such withholding tax from the Spanish tax authorities pursuant to the Spanish refund procedure described below under *"Spanish Direct Refund from Spanish tax authorities"*

In addition, Holders resident in certain countries will be entitled to the benefits of a double taxation treaty, in effect between Spain and their country of tax residence. Such Holders may benefit from a reduced tax rate or an exemption under an applicable treaty with Spain, subject to the satisfaction of any conditions specified in the relevant treaty, including providing evidence of the tax residence of the non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the non-Spanish Holder or, as the case may be, the equivalent document specified in the Spanish Order which further develops the applicable treaty.

According to the Order of the Ministry of Economy and Finance of 13 April 2000, upon distribution of a dividend, the Issuer or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (e.g., applying the general withholding tax rate of 19 per cent.), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish Holder has entered into a contract of deposit or management with respect to shares in the Issuer held by such Holders. If the depositary of the non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence (e.g., a valid certificate of tax residence issued by the relevant tax authorities of the non-Spanish Holder's country of residence stating that, for the records of such authorities, the non-Spanish Holder is a resident of such country within the meaning of the relevant double taxation treaty, or as the case may be, the equivalent document regulated in the Order which further develops the applicable treaty) of the non-Spanish Holder's right to obtain either the domestic exemption or the treaty-reduced rate or the exemption, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish Holder. For these purposes, the relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the non-Spanish Holder is not resident, domiciled or represented in Spain, the non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated 30 July 2004, promulgating the Non-Resident Income Tax Regulations and an Order dated 17 December 2010, as amended.

(l) Taxation of capital gains

Capital gains derived from the transfer or sale of the shares will be deemed income arising in Spain, and, therefore, are taxable in Spain at a general tax rate of 19 per cent.

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains. However, capital gains derived from the transfer of shares in the Issuer will be exempt from taxation in Spain in either of the following cases:

- Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any non-Spanish Holder who is tax resident of a country that has entered into a double taxation treaty with Spain containing an exchange of information clause. This exemption is not applicable to capital gains obtained by a non-Spanish Holder through a country or territory that is defined as a tax haven by Spanish regulations.

- Capital gains obtained directly by any non-Spanish Holder resident of another EU Member State or indirectly through a permanent establishment of such non-Spanish Holder in a EU Member State other than Spain, provided that:

  – the Issuer's assets do not mainly consist of, directly or indirectly, Spanish real estate;

  – during the preceding 12 months in case of individuals non-Spanish Holder has not held a direct or indirect interest of at least 25 per cent. in the Issuer's capital or net equity;

  – in the case of non-resident legal entities, the transfer fulfils all the requirements to benefit from the exemption on dividends and capital gains established for Spanish resident entities, passed by the CIT Law and described in paragraph (a) under *Legal entities with tax residency in Spain and non-Spanish tax resident investors acting through a permanent establishment in Spain to which the shares are attributable—Corporate Income Tax (Impuesto sobre Sociedades)*; and

  – the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

- Capital gains realised by non-Spanish Holders who benefit from a double taxation treaty that provides for taxation only in such non-Spanish Holder's country of residence.

Holders must submit a Spanish tax form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to settle the corresponding tax obligations or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish Holder is resident of such country within the meaning of the relevant double taxation treaty) or equivalent document meeting the requirements of the Order which further develops the applicable double taxation treaty, together with the Spanish tax form. The non-Spanish Holder's tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

8.2 Wealth Tax (Impuesto sobre el Patrimonio)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be

subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

However, non-Spanish resident individuals will be exempt from Wealth Tax in respect of the Ordinary Shares which income is exempt from Non-Resident Income Tax as described above.

In accordance with article 4 of RDL 3/2016 a full exemption on Wealth Tax will apply as of 2018. However, for the tax period 2018 the exemption has been revoked by the General State Budget Law for 2018 passed by Law 6/2018, of 3 July (*Ley 6/2018, de 3 de Julio, de Presupuestos Generales del Estado para el año 2018)*.

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 are located, can be exercised or must be fulfilled.

Non-Spanish resident legal entities are not subject to Wealth Tax.

8.3 Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Unless otherwise provided under an applicable double taxation agreement in relation to Inheritance and Gift Tax, transfers of shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish Inheritance and Gift Tax if the shares are located in Spain (as is the case with shares in the Issuer) or the rights attached to such shares are exercisable in Spain, regardless of the residence of the heir or the beneficiary. The taxpayer is the transferee. The applicable tax rate, after applying all relevant factors, ranges between 7.65 per cent. and 81.6 per cent. for individuals, although the final tax rates may vary depending on any applicable regional tax laws.

According to the amendments passed by Law 26/2014, of 27 November, it will be possible to apply tax benefits approved in some Spanish regions to EU residents following specific rules.

Non-Spanish resident legal entities which acquire ownership or other rights over the Ordinary Shares by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be generally subject to Spanish Non-Resident Income Tax as if they had obtained capital gains, without prejudice to the exemptions referred to above under "—*Taxation of capital gains*".

Spanish Direct Refund from Spanish tax authorities

Beneficial owners entitled to receive income payments in respect of the Preferred Securities or in respect of the Ordinary Shares free of Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable double taxation treaty, but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim any excess amount withheld by the Bank from the Spanish Treasury following the 1 February of the calendar year following the year in which the relevant payment date takes place, and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership, and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

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 financial transactions tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **Participating Member States**). However, Estonia has since officially announced its withdrawal from the negotiations.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt.

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

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

Prospective holders of Instruments are advised to seek their own professional advice in relation to the FTT. The Issuer would not be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such tax.

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 Offering Circular 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 Offering Circular.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Preferred Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Preferred Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Preferred Securities, neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

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) Paying agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores……

1.1 Identification of the securities……

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados) ……

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora ……

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved ……

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2. En relación con el apartado 5 del artículo 44.

2. In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores ……

2.1 Identification of the securities……..

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) ……

2.2 Income payment date (or refund if the securities are issued at discount or are segregated) ……

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados ……

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en……a … de……de …

I declare the above in …… on the … of …… of …

(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia

(1) In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 12 September 2018, jointly and severally agreed to subscribe (with the exception of Bankia, S.A.) or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities. The Bank has agreed to pay to the Joint Lead Managers on the Closing Date a customary combined management and underwriting commission. In addition, the Bank will also reimburse each of the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify each of the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Bank.

United States of America

The Preferred Securities and the Ordinary Shares to be issued and delivered in the event of any Trigger Conversion have not been and will not be registered under the Securities Act or securities laws or blue sky laws of any state of the United States or any other relevant federal jurisdiction, and, accordingly, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Preferred Securities are being offered and sold in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver Preferred Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Preferred Securities, as certified to the Fiscal Agent or the Issuer by such Joint Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and such Joint Lead Manager will have sent to each affiliate or other dealer to which it sells Preferred Securities during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after completion of the distribution of the Preferred Securities, as certified to the Fiscal Agent or the Issuer by a Joint Lead Manager, any offer or sale of Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph and the paragraph above have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(b) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

The Kingdom of Spain

The Preferred Securities must not be offered, distributed or sold neither in Spain nor to Spanish Residents. No publicity of any kind shall be made in Spain. For the purposes of the selling restriction included in this section "*Subscription and Sale*", "**Spanish Resident"** means a tax resident of Spain for the purposes of the Spanish tax legislation and any tax treaty signed by Spain for the avoidance of double taxation, including (i) any corporation, or other entity taxable as a corporation, incorporated under Spanish law, whose registered office is located in Spain or whose effective management is performed in Spain, and (ii) any non-residential entity for tax purposes in Spain acting in respect of the Preferred Securities through a permanent establishment in Spain, and (iii) any individual who is physically present in the Spanish

territory for more than 183 days in the calendar year or whose main centre or base of activities or economic interests is in Spain.

Republic of Italy

The offering of the Preferred Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Preferred Securities may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to the Preferred Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Preferred Securities or distribution of copies of the Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**); and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

France

This Offering Circular and any other offering material relating to the Preferred Securities described in this Offering Circular have not been prepared in the context of a public offering of securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Articles 211-1 et seq. of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers* (the **AMF**).

Neither this Offering Circular nor any other offering material relating to the Preferred Securities described in this Offering Circular has been submitted to the clearance procedures of the AMF or of the competent authority of another Member State of the European Economic Area and notified to the AMF. The Preferred Securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Circular nor any other offering material relating to the Preferred Securities has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Securities to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*), other than individuals, investing for their own account, all as defined in, and in accordance with, articles L.411-2-II-2, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* and any implementing regulation; or
- to investment services providers authorized to engage in portfolio management on behalf of third parties (*personnes fournissant le service d'nvestissement de gestion de portefeuille pour compte de tiers*), as defined in and in accordance with Articles L.411-2-II-1 and D.321-1 of the French *Code monétaire et financier* and any implementing regulation.

The Preferred Securities may not be resold directly or indirectly to the public in France by the investors otherwise than in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager represents, warrants and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Preferred Securities to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

b) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

Each Joint Lead 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 or from which it purchases, offers, sells or delivers Preferred Securities or possesses, distributes or publishes this Offering Circular or any related offering material, in all cases at its own expense. Other persons into whose hands this Offering Circular comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Preferred Securities or possess, distribute or publish this Offering Circular or any related offering material, in all cases at their own expense.

The Subscription Agreement provides that the Joint Lead Managers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Joint Lead Managers described in the paragraph headed *General* above.

GENERAL INFORMATION

1. Listing

Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market (**GEM**) of the Irish Stock Exchange. It is expected that listing of the Preferred Securities will take place and that dealings in the Preferred Securities on the GEM will commence on or about 19 September 2018. The Issuer estimates that the expenses related to the admission of Preferred Securities to trading on the GEM are expected to be €4,540.

2. Authorisation

The creation and issue of the Preferred Securities have been authorised by resolutions of the General Shareholders Meeting of the Issuer held on 10 April 2018 and the Board of Directors' meeting of the Issuer dated 26 April 2018.

3. Material/Significant Change

Since 31 December 2017, there has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries taken as a whole. There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries taken as a whole since 30 June 2018.

4. Independent auditors

The consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2017 and 31 December 2016 by Ernst & Young, S.L. (**EY**) with domicile at Raimundo Fernández Villaverde, 65 - Torre Azca, 28003 Madrid, Spain, independent auditors who are members of the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number S0530.

5. Listing Agent

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Notes to the Official List of the Irish Stock Exchange and trading on the GEM.

6. LEI code

The Legal Entity Identifier (**LEI**) code of the Issuer is 549300685QG7DJS55M76.

7. Third party information

The Issuer confirms that where information herein has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

8. Documents on Display

For so long as any of the Preferred Securities are outstanding, copies of the following documents in electronic format (together with English translations thereof (if any)) may be inspected during normal business hours at the offices of the Issuer, as at the date of this Offering Circular, at Calle del Pintor Sorolla, 8, 46002 Valencia, Spain, and the Agent Bank, as at the date of this Offering Circular, at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom:

(a) the by-laws (*estatutos sociales*) of the Issuer currently in force; and

(b) the audited consolidated financial statements of the Issuer for the years ended 31 December 2017 and 31 December 2016;

(c) the audited consolidated interim financial statements of the Issuer for the three-month period ended 30 June 2018; and

(d) the Agency Agreement.

9. Interests of Natural and Legal Persons Involved in the Offer of the Preferred Securities

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

10. Yield

On the basis of the issue price of the Preferred Securities of 100 per cent. of their principal amount, the annual yield of the Preferred Securities for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 6.529 per cent. This yield is calculated on the Closing Date and is not an indication of future yield.

11. Listing of the Ordinary Shares

The Ordinary Shares are listed on the Spanish Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, which are regulated markets for the purposes of MiFID II, and are quoted on the Automated Quotation System – Continuous Market (*Sistema de Interconexión Bursátil Español—Mercado Continuo (SIBE)*, under the symbol *BKIA*. The ISIN for the Ordinary Shares is ES0113307062. Information about the past and future performance of the Ordinary Shares and their volatility can be obtained from the respective websites of each of the relevant Spanish Stock Exchanges.

12. Listing of the Preferred Securities: ISIN and Common Code

The Preferred Securities will be admitted to listing on the GEM of the Irish Stock Exchange and have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Preferred Securities bear the ISIN XS1880365975 and the common code 188036597.

13. Other Relationships

Certain Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Preferred Securities issued under the Offering Circular. Any such short positions could adversely affect future trading prices of Preferred Securities issued under the Offering Circular. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

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Spain

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United Kingdom

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