



//ABANCA

ABANCA CORPORACIÓN BANCARIA, S.A.
*(incorporated as a limited liability company (sociedad anónima) under
the laws of the Kingdom of Spain)*

€250,000,000

Perpetual Non-Cumulative Additional Tier 1 Preferred Securities

The issue price of the €250,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities of €200,000 of Original Principal Amount each (as defined in the terms and conditions of the Preferred Securities (the "Conditions")) (the "Preferred Securities") of ABANCA Corporación Bancaria, S.A. (the "Bank" or "ABANCA") is 100% of their principal amount. The Preferred Securities have been issued on 2 October 2018 (the "Closing Date"). The Bank and its consolidated subsidiaries are referred to herein as the "ABANCA Group" and its parent company, ABANCA Holding Financiero, S.A. ("ABANCA Holding"), together with its consolidated subsidiaries are referred to herein as the "ABANCA Holding Group".

The Preferred Securities will accrue non-cumulative cash distributions ("Distributions") on their Outstanding Principal Amount (as defined in the Conditions), as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 2 October 2023 (the "First Reset Date"), at the rate of 7.5% 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 7.326% per annum (the "Initial Margin") and the 5-year Mid-Swap Rate (as defined in the Conditions) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrears on 2 January, 2 April, 2 July and 2 October in each year (each a "Distribution Payment Date").

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

If at any time the CET1 ratio (as defined in the Conditions) of any of ABANCA, the ABANCA Group and/or the ABANCA Holding Group falls below 5.125% (each, a "Trigger Event"), the Outstanding Principal Amount of the Preferred Securities will be Written Down by the relevant Write Down Amount, as further provided in Condition 6.1. The Outstanding Principal Amount may, in the sole and absolute discretion of the Bank and subject to certain conditions, be subsequently reinstated (in whole or in part), out of any Net Income generated by each of ABANCA, the ABANCA Group and the ABANCA Holding Group, as applicable, as further described in Condition 6.2.

The Preferred Securities are perpetual. As further described in Condition 7.2, all, and not some only, of the Preferred Securities may be redeemed at the option of the Bank on any Distribution Payment Date falling on or after the First Reset Date, at the Outstanding Principal Amount plus, if applicable, where not cancelled, any accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the "Redemption Price") provided that any principal amount by which the Preferred Securities have been Written Down has first been reinstated in full. The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions). Any such redemption will be subject to the prior consent of the Competent Authority and otherwise in accordance with the Applicable Banking Regulations then in force.

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

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

The Preferred Securities are expected to be rated B by Fitch Ratings España, S.A.U. ("Fitch"). Fitch is established in the European Union ("EU") and is registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the "CRA Regulation"). Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 May 2018) on the European Securities and Markets Authority ("ESMA") website. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

This document constitutes a listing prospectus (the "Prospectus") for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the EU, as amended and implemented in each Member State (the "Prospectus Directive") and has been prepared in accordance with, and including the information required by Annexes XI and XIII of Regulation (EC) No 809/2004 (the "Prospectus Regulation"). This Prospectus has been approved by the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) (the "CNMV") in its capacity as competent authority under the Prospectus Directive and its implementing measures in Spain, including the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015, of 23 October (the "Spanish Securities Market Law").

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

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 "ICE SWAP/ISDAFIX2" screen, which is provided by ICE Benchmark Administration Limited or by reference to EURIBOR 6-month (as defined in the Conditions) which appears on the "EURIBOR01" screen, which is provided by the European Money Markets Institute. As of the date

of this Prospectus, the European Money Markets Institute does not appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of the Regulation (EU) No 2016/1011 (the "**Benchmark Regulation**"). As far as ABANCA is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that the European Money Markets Institute is required to apply for authorisation or registration before 1 January 2020. As at the date of this Prospectus, ICE Benchmark Administration Limited appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmark Regulation.

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

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors.

The Preferred Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to retail clients as defined in the rules set out in the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EU and Directive 2011/61/EU (as amended or replaced from time to time, "MiFID II") in any jurisdiction of the European Economic Area ("EEA"). Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on pages 143 and 144 of this Prospectus for further information.

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

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "Risk Factors" beginning on page 9.

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

Joint Lead Managers

Barclays

BNP PARIBAS

Nomura

UBS Investment Bank

[●] 2018

IMPORTANT NOTICES

ABANCA has not authorised the making or provision of any representation or information regarding ABANCA, the ABANCA Group or the ABANCA Holding Group or the Preferred Securities other than as contained in this Prospectus or as approved for such purpose by ABANCA. Any such representation or information should not be relied upon as having been authorised by ABANCA or the joint lead managers named under "*Subscription and Sale*" below (the "**Joint Lead Managers**").

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

Neither this Prospectus nor any such information or financial statements of ABANCA, the ABANCA Group or the ABANCA Holding Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by ABANCA or the Joint Lead Managers that any recipient of this Prospectus or such information or financial statements should purchase the Preferred Securities. Each potential purchaser of Preferred Securities should determine for itself the relevance of the information contained or incorporated by reference in this Prospectus and its purchase of Preferred Securities should be based upon such investigation as it deems necessary. None of the Joint Lead Managers undertakes to review the financial condition or affairs of ABANCA, the ABANCA Group or the ABANCA Holding Group during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Preferred Securities of any information coming to the attention of the Joint Lead Managers.

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

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

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

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

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

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

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

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Preferred Securities issued pursuant to the Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors (see also "*Risk Factors—Risks related to the Preferred Securities*"). In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors.

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

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

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

1. it is not a retail client (as defined in MiFID II);
2. whether or not it is subject to the Regulations, it will not:
 - (A) sell or offer the Preferred Securities (or any beneficial interest therein) to retail clients (as defined in MiFID II); or
 - (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (in each case within the meaning of MiFID II). In selling or offering the Preferred Securities or making or approving communications relating to the Preferred Securities, it may not rely on the limited exemptions set out in the PI Instrument; and
3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Preferred Securities (or any beneficial interests therein), including (without limitation) MiFID II and any other such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Preferred Securities (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
- (ii) no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

As agreed by ABANCA and the Joint Lead Managers, offers of the Preferred Securities in Spain have only been directed specifically at or made to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

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

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 (KID) required by the PRIIPs Regulation for offering or selling the Preferred Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Preferred Securities has led to the conclusion that: (i) the target market for the Preferred Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Preferred Securities to eligible counterparties and professional clients are appropriate. The target market assessment indicates that Preferred Securities are incompatible with the needs, characteristic and objectives of clients which have no risk tolerance or are seeking on-demand full repayment of the amounts invested. Any person subsequently offering, selling or recommending the Preferred Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Preferred Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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OVERVIEW

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

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

Issuer	ABANCA Corporación Bancaria, S.A.
Joint Lead Managers	Barclays Bank PLC, BNP Paribas, Nomura International plc and UBS Limited.
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 " <i>Risk Factors</i> " below. 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 " <i>Risk Factors</i> ".
Issue size	€250,000,000
Issue date	2 October 2018
Issue details	€250,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities of €200,000 Original Principal Amount each. ABANCA has requested that the Preferred Securities qualify as Additional Tier 1 Capital of ABANCA and the ABANCA Holding Group pursuant to Applicable Banking Regulations.
Original Principal Amount	€200,000 per Preferred Security.
Outstanding Principal Amount	In respect of each Preferred Security, at any time, the Original Principal Amount of such Preferred Security as reduced from time to time by any Write Down or any other write down or cancellation, as the case may be, and, if applicable, as subsequently increased from time to time by any Write Up in accordance with the Conditions.
Use of Proceeds	The Bank intends to use the net proceeds from the issue of the Preferred Securities for its general corporate purposes.
Distributions	The Preferred Securities accrue Distributions on their Outstanding Principal Amount as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7.5% per annum; and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Bank on the relevant Reset Determination Date. Subject as provided in Conditions 4.3 and 4.4 (see " <i>Limitations on Distributions</i> " below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 4.

Limitations on Distributions

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution (including any additional amounts pursuant to Condition 12) in whole or in part at any time that it deems necessary or desirable and for any reason.

Without prejudice to the right of the Bank to cancel payments of a Distribution:

- (a) Payments of Distributions (including any additional amounts pursuant to Condition 12) in any financial year of the Bank shall be made only to the extent the Bank has sufficient Distributable Items. To the extent that the Bank has insufficient Distributable Items to make Distributions (including any additional amounts pursuant to Condition 12) on the Preferred Securities scheduled for payment in the then current financial year and any interest payments, distributions or other payments on own funds items that have been paid or made or are scheduled or required to be paid out of or conditional to sufficient Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank or which are not required to be made conditional upon Distributable Items, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.
- (b) If the Competent Authority, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a relevant Distribution (including any additional amounts pursuant to Condition 12) in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.
- (c) The Bank may make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities if and to the extent that payment of any Distribution (including any additional amounts pursuant to Condition 12) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV, which will include Article 48 of Law 10/2014 and any of its development provisions), the Maximum Distributable Amount to be exceeded or otherwise would cause any other breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations;

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

For further information, see Condition 4.

Status of the Preferred Securities

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

For further information, see Condition 3.

Optional Redemption

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

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

For further information, see Condition 7.

Substitution and Variation

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

For further information, see Condition 8.

Liquidation Distribution

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

the Bank or any other instrument of the Bank ranking junior to the Preferred Securities.

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

Loss Absorption following a Trigger Event

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

For further information, see Condition 6.1.

Write Up

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

- (i) result in the Outstanding Principal Amount of the Preferred Securities being greater than their Original Principal Amount;
- (ii) be operated whilst a Trigger Event has occurred and is continuing;
- (iii) result in the occurrence of a Trigger Event; or
- (iv) result in the Maximum Write Up Amount to be exceeded when taken together with the aggregate of:
 - a. any previous Write Up of the Preferred Securities out of the same Net Income since the end of the then previous financial year;
 - b. the aggregate amount of any Distribution payments on the Preferred Securities that were paid or calculated (but disregarding any Distributions cancelled) on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount at any time after the end of the then previous financial year;

- c. the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Net Income concurrently (or substantially concurrently) with the Write Up and (if applicable) any previous increase in principal amount of such Loss Absorbing Written Down Instruments out of the same Net Income since the end of the then previous financial year; and
- d. the aggregate amount of any distribution payments on such Loss Absorbing Written Down Instruments that were paid or calculated (but disregarding any distributions cancelled) on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Written Down Instruments were issued at any time after the end of the then previous financial year.

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

For further information, see Condition 6.2.

Purchases

The Bank, or any member of the ABANCA Group or the ABANCA Holding 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. For further information, see Condition 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 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.

Meetings of Holders

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

For further information, see Condition 11.

Withholding Tax and Additional Amounts

All payments of Distributions and other amounts payable (excluding, for the avoidance of doubt, any repayment of principal) in respect of the Preferred Securities by or on behalf of the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that

any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority of agency therein or thereof having power to tax in respect of payments of Distributions (but not any Outstanding Principal Amount or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distribution had no such withholding or deduction been required, subject to the exceptions provided in Condition 12.

For further information, see Condition 12.

Form

The Preferred Securities have been issued in uncertificated, dematerialised book-entry form in euro in an aggregate nominal amount of €250,000,000 and Original Principal Amount of €200,000 each.

Registration, clearing and settlement

The Preferred Securities have been registered with Iberclear as managing entity of the Spanish Central Registry (both, as defined in the Conditions). Holders of a beneficial interest in the Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with Iberclear.

Title and transfer

Title to the Preferred Securities is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Preferred Securities recorded therein. For these purposes, the "**Holder**" means the person in whose name such Preferred Securities is for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book (or, in the case of a joint holding, the first named thereof) and Holder shall be construed accordingly.

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

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

Rating

The Preferred Securities are expected to be rated B by Fitch.

Listing and admission to trading

Application has been made for the Preferred Securities to be admitted to trading on AIAF. The Preferred Securities may also be admitted to trading on any other secondary market as may be agreed by ABANCA.

Governing Law

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

Selling Restrictions

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

RISK FACTORS

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

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

Risks relating to ABANCA and the ABANCA Group

Credit Risk

The ABANCA Group is exposed to the creditworthiness of its customers and counterparties. Credit risk can be defined as potential losses in respect of the full or partial breach of the debt repayment obligations of customers or counterparties (including, but not limited to, the insolvency of a counterparty or debtor), and also includes the value loss as a consequence of the credit quality of customers or counterparties. Credit risk is of concern in respect of the ABANCA Group's business activities in the banking, insurance, treasury and investee portfolio sectors. As of 30 June 2018 credits to clients and fixed income securities represented 60.83% and 23.28%, respectively, of the total assets of the ABANCA Group (57.34% and 25.28%, respectively, as of 31 December 2017 and 60.22% and 22.86%, respectively, as of 31 December 2016).

The ABANCA Group's portfolio of loans to clients is comprised mainly of loans to big, medium and small enterprises and mortgage and consumer loans to private clients. Payment defaults by clients and other counterparties may arise from events and circumstances that are unforeseeable or difficult to predict or detect. Market turmoil and economic weakness, especially in Spain (and in Galicia), could have a material adverse effect on the liquidity, business and financial conditions of the ABANCA Group's clients, which could in turn impair the ABANCA Group's loan portfolio. Adverse changes in the credit quality of the ABANCA Group's borrowers and counterparties could affect the recoverability and value of the ABANCA Group's assets and require an increase in provisions for bad and doubtful debts and other provisions. In addition, the ABANCA 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 ABANCA Group enters into expose it to significant credit risk in the event of default by one of the ABANCA Group's significant counterparties. Collateral and security provided to the ABANCA Group may be insufficient to cover the exposure or the obligations of others to the ABANCA Group. The creditworthiness of a customer or a counterparty resulting in a default would have an impact in the expected losses of the ABANCA Group and cause an increase in its relevant provisions (which could even not be sufficient to cover the losses related to the credit risk). Accordingly, any of the foregoing could have a material adverse effect on the ABANCA Group's business, financial condition and results of operations.

Non-performing or low credit quality loans have in the past negatively impacted the ABANCA Group's results of operations and, as well as to all the banking system, could do so in the future. As of 30 June 2018, the non-performing loans ("NPLs"), which correspond to the item "impaired assets" of the consolidated balance sheet of the ABANCA Group, amounted to €1,400.56 million, representing 2.8% of the total assets of the ABANCA Group (€1,541.35 million and 3.0%, respectively, as of 31 December 2017 and €2,153.21 million and 4.8%, respectively, as of 31 December 2016). As of 30 June 2018, 75.2% of the NPLs were

secured by real estate mortgages, while 0.4% were secured by other types of in rem securities (such as pledges) and 24.4% were unsecured (75.0%, 0.3% and 24.7%, respectively, as of 31 December 2017). As of 30 June 2018, the NPL Ratio of the ABANCA Group was 4.6% (5.3% as of 31 December 2017 and 7.8% as of 31 December 2016) and the NPL Coverage Ratio of the ABANCA Group was 53.6% (51.6% as of 31 December 2017 and 50.1% as of 31 December 2016). If the ABANCA Group was unable to control the level of its non-performing or poor credit quality loans, this could adversely affect the ABANCA Group's financial condition and results of operations. NPL Ratio and NPL Coverage Ratio are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of ABANCA—Alternative Performance Measures*".

A weakening in customers' and counterparties creditworthiness' could also impact the ABANCA Group's capital adequacy. The regulatory capital levels the ABANCA Group is required to maintain are calculated as a percentage of its risk-weighted assets ("**RWAs**"), in accordance with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the "**CRD IV Directive**"), and the regulation governing capital requirements according to Regulation (EU) 575/2013, of 26 June, on prudential requirements for credit institutions and investment firms (the "**CRR**"). The RWAs consist of the ABANCA Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of its assets, which include its lending portfolio. If the creditworthiness of a customer or a counterparty declines, the ABANCA Group would lower their rating, which would presumably result in an increase in its RWAs, which potentially could reduce the ABANCA Group's capital adequacy ratios and limit its lending or investments in other operations.

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

The ABANCA Group conducts its business mainly in Spain (as of 30 June 2018, 98% of the total consolidated assets and liabilities of the ABANCA Group were located in Spain (97% as of both 31 December 2017 and 31 December 2016) and, as of 30 June 2018, the ABANCA Group held Spanish debt (mainly sovereign) representing 15% of its total consolidated assets (16% and 20% as of 31 December 2017 and 2016, respectively)). In particular, it has a remarkable footprint in the autonomous region (*comunidad autónoma*) of Galicia. Consequently, the income generated by most of the products sold and by the services rendered by the ABANCA Group depends on the economic conditions in Spain and especially in Galicia, and also indirectly on the economic conditions in the EEA.

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

From 2014 the Spanish economy has had a good performance and in the last three years the current account imbalances have been positive: Spain has experienced gross domestic product ("**GDP**") growths of 3.4% in 2015, 3.3% in 2016 and 3.1% in 2017 (source: *National Statistics Institute of Spain, Quarterly National Accounts of Spain, Press Note 1 March 2018*). Recently, the International Monetary Fund has reviewed the expected growth of the Spanish economy and has projected an increase of its GDP by 2.8% in 2018 and 2.2% in 2019 (source: *International Monetary Fund, World Economic Outlook, April 2018*), while the Bank of Spain (Banco de España) expects a GDP growth rate of 2.7% in 2018 and 2.4% in 2019 (source: *Bank of Spain, Macroeconomic Projections, June 2018*). Higher employment and easier financing conditions should support domestic demand; growth and the recovery of the euro area is also expected to continue to support export demand. The Spanish economy has made progress in reducing its economic and financial

imbalances and implementing important structural reforms. Current account surpluses, the adjustment in the real estate sector and advanced deleveraging of the private sector have contributed to improving the Spanish economy. Nevertheless, public fiscal accounts are adjusting slowly: the deficit stood at 3.07% in 2017 (source: *Ministry of Finance and the Civil Service, Press Release, 26 March 2018*), below the target of 3.1% for 2017 and it is expected to reduce to the target of 2.2% for 2018 (source: *Ministry of Finance and the Civil Service, Press Release, 3 April 2018*). High public deficits have pushed public debt to 98.8 % of GDP in the first quarter of 2018 (source: Bank of Spain, Statistical Bulletin, July 2018), but despite the adverse dynamics, the level of public debt in Spain is not far from the Euro area average (86.8 % of GDP in the first quarter of 2018 (source: Bank of Spain, Statistical Bulletin, July 2018)). The Spanish banking system is accelerating the pace of new lending as a result of increased demand and improved financial conditions. After the clean-up and restructuring efforts of the past years, the main challenge now is to achieve sustainable profitability levels through a combination of higher revenues from increased business volumes, lower funding costs, additional capacity adjustments and a lower cost-of-risk.

In 2017, Galicia achieved a remarkable momentum with a GDP growth of 3.1%, the same record as the average of the Spanish economy (source: *National Statistics Institute of Spain, regional accounting series, Press Note 23 March 2018*), with an improved employment creation, registering at the end of 2017 an unemployment rate of 14.7% (source: *National Statistics Institute of Spain, Economically Active Population Survey*), which is below the Spanish average.

At the same time, the economy of the Eurozone has consolidated its expansion in 2017 with a GDP growth of 2.5% in 2017 (source: *ECB staff macroeconomic projections for the euro area, March 2018*), the highest rate of the last decade, supported by the expansive monetary policy of the European Central Bank ("ECB") and the boost of core countries of the area.

The above notwithstanding, the European and the Spanish economies could be negatively affected by several risks, both external and internal. External risks include the possibilities of a greater slowdown in the emerging economies and another episode of financial volatility and several political and geopolitical risks. Internal risks in the euro area include the negotiation process regarding the exit by the United Kingdom ("UK") from the EU (Brexit), which could have adverse effects on the UK and the rest of EU economies through real and financial channels, or the political situation in Italy where a new government comprised of representatives of two different political parties, and that includes Euro-sceptic members, was formed in June 2018 after weeks of political instability following the March 2018 elections. While the direct exposure of the European economy to the UK through these channels appears to be relatively small, the impact could be larger due to its impact on consumer and business confidence. Other existing risks to the European and the Spanish economies include a potential increase of the interest rates, the variation of the EUR-USD exchange rate or the implementation of protectionist measures in both foreign and European economic systems.

In addition, while the probability of country defaults has decreased since 2012, the possibility of a European sovereign default still exists. In the past, the ECB and the European Council have taken actions with the aim of reducing the risk of contagion in the Eurozone and beyond and improving economic and financial stability. Notwithstanding these measures, a significant number of financial institutions throughout Europe have substantial exposure to sovereign debt issued by Eurozone (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, financial institutions and banking systems throughout Europe could be adversely affected, with wider possible adverse consequences for global financial market conditions. The risk of returning to fragile, volatile and political tensions exists if the current ECB policies in place to control the crisis are normalised, the reforms aimed at improving productivity and competition and the European banking union and other measures of integration do not progress or Euro-sceptic groups succeed. Moreover, if one or more EU member states were to exit from the European Monetary Union (EMU), this could cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency. These risks could materially affect the European and global economy, and substantially disrupt capital, interbank, banking and other markets, among other effects. Moreover, tensions among EU member states, and growing Euro-scepticism in certain EU countries, intensified by the refugee crisis, could pose additional difficulties in the EU's ability to react to any of those economic risks. The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports, so that an interruption in the recovery of the Eurozone might have an adverse effect on Spanish economic growth.

An internal risk to the Spanish economy arises from political fragmentation and uncertainties arising from the political situation within Spain, which may slow the pace of reform and fiscal adjustments or result in changes to laws, regulations and policies or impact economic growth in Spain. This applies not only to specific Spanish regions such as Catalonia (where considerable uncertainty exists regarding the outcome of political tensions between Spain's central government and the regional government of Catalonia that could start to weigh on business confidence and investment, and could weaken Spain's current good growth prospects) but also to the central Spanish government where, after the successful result of the June 2018 no confidence vote, further instability cannot be ruled out due to the forming of a new minority government. An increase in political uncertainties in Spain could have adverse economic effects. Furthermore, there is consensus that, despite the expected improvement in the labour market, the unemployment rate will remain high in the months to come in Spain.

In particular, the ABANCA Group faces, among others, the following risks related to a potential new economic downturn:

- Reduced demand for the ABANCA Group's products and services.
- Increased regulation of the ABANCA Group's industry. Compliance with such regulation will continue to increase the ABANCA Group's costs and may affect the pricing of its products and services, increase its conduct and regulatory risks related to non-compliance and limit the ABANCA Group's ability to pursue business opportunities.
- Inability of the ABANCA Group's borrowers to timely or fully comply with their existing obligations. Macroeconomic shocks may negatively impact the household income of its retail customers and may adversely affect the recoverability of its retail loans, resulting in increased loan losses.
- The process the ABANCA Group uses to estimate losses inherent to its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of the ABANCA Group's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the ABANCA Group's estimates, which may, in turn, impact the reliability of the process and the sufficiency of the ABANCA Group's loan loss allowances.
- The value and liquidity of the portfolio of investment securities that the ABANCA Group holds may be adversely affected.
- A delay in the recovery of the international financial industry may negatively impact the ABANCA Group's financial condition and results of operations.

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

Liquidity risk

Liquidity risk comprises uncertainties as regards the ability of the ABANCA Group's ability, under adverse conditions, to timely access funding necessary to cover the ABANCA Group's obligations to customers as they become due, to meet the maturity of the ABANCA Group's liabilities and to satisfy capital requirements. It includes both the risk of unexpected increases in the cost of funding and the risk of not being able to structure the maturity dates of the ABANCA Group's liabilities reasonably in line with the ABANCA Group's assets. The ABANCA Group's financial position could be adversely affected if access to liquidity and funding is limited or becomes more expensive for a prolonged period of time.

The immediate access to funds is essential for any banking business, and the ABANCA Group is not an exception. The ability of the ABANCA Group to obtain funds or to access them could be damaged by factors which are not intrinsic to its operations, such as general market conditions, an alteration or closure in the financial markets, a negative view of the perspectives of the sectors to which it grants a large number of its loans or uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, which in turn could generate a negative view of the liquidity of the ABANCA Group among creditors and derive in a decrease in credit ratings, higher debt costs and less access to funds.

If there were a deterioration in the situation of the international capital markets, or the credit ratings of ABANCA worsened, it would likely be more difficult for it to attract resources in such markets. Furthermore, given that ABANCA is a Spanish credit institution, a crisis in Spanish sovereign bonds could increase its financing costs.

In such extreme circumstances, the ABANCA Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. These factors may have a material adverse effect on the ABANCA Group's regulatory position, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

One of the ABANCA Group's major sources of funds are savings and demand deposits. The level of wholesale and retail deposits may fluctuate due to factors outside the ABANCA Group's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. As of 30 June 2018, 78.6% of the total consolidated liabilities of ABANCA were customer deposits (76.4% as of 31 December 2017 and 82.0% as of 31 December 2016). As of 30 June 2018, customer deposits registered a semiannual increase of 0.7% (5.8% during 2017 and 2.7% during 2016).

As of 30 June 2018, the ABANCA Group presented a negative short-term (demand) gap of €22,195.41 million (€20,620.90 million as of 31 December 2017 and €17,188.23 million as of 31 December 2016), characteristic of retail banking, in which an important part of its liabilities consists of short-term liabilities, for which the historic behavior indicates a high degree of stability. As of that date, the liquidity gap displayed a negative balance within the "up to 1 month" period of €412.13 million (€2,789.84 million as of 31 December 2017 and €758.81 million as of 31 December 2016), within the "between 1 and 3 months" period of €2,100.98 million (€2,414.66 million as of 31 December 2017 and €3,860.34 million as of 31 December 2016) and within the "between 3 and 12 months" period of €4,820.19 million (€4,978.54 million as of 31 December 2017 and €4,186.65 million as of 31 December 2016), mainly due to the great strength of the term deposits of customers, which also historically display a high degree of stability.

As of 30 June 2018 the retail loan to deposits ratio of the ABANCA Group was 93.6%, compared to 93.3% as of 31 December 2017 and 90.9% as of 31 December 2016. However, ABANCA cannot guarantee that it will be able to meet its liquidity needs or meet them without incurring higher customer acquisition costs or having to liquidate part of its assets if there is some pressure on its liquidity for any reason, which could cause a negative impact on the interest margin of the ABANCA Group. The retail loan to deposits ratio is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of ABANCA—Alternative Performance Measures*".

A fundamental part of the ABANCA Group's strategy for the management of liquidity involves access to capital markets, and therefore the uncertainty regarding the level of resources that could be raised at acceptable interest rates on such markets could affect the strength of its liquidity situation and have a substantial negative impact on the business, financial situation and structure and operating result of the ABANCA Group. In this regard, it should be noted that ABANCA is not a publicly-traded entity and therefore has limited access to, and may be unable to obtain financing from, public capital markets.

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

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

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

As of 30 June 2018 the funding with the ECB (through the TLTRO II) amounted to €3,442.96 million, as of 31 December 2017 to 3,449.92 and as of 31 December 2016 to €1,700.0 million, which represented 6.9%, 6.8% and 3.8%, respectively, of the total consolidated asset of the ABANCA Group, and 7.5%, 7.4% and 4.1% of the consolidated liability of the ABANCA Group, as of 30 June 2018, 31 December 2017 and 31 December 2016, respectively.

Any changes to the policies and requirements for accessing funding from the ECB, including any changes to the criteria for identifying the asset types admitted as collateral and/or their relative valuations or a reduction or discontinuation of these liquidity support operations, could have a material adverse effect on the ABANCA Group's business, financial condition and results of operations. For the sake of completeness, it should also be noted that in spite of the positive impacts of these operations to support the liquidity in the macroeconomic context, there is the risk that an expansionary monetary policy (including specifically, quantitative easing) may have an effect on keeping interest rates, currently already negative for short- and medium-term due dates, at minimum levels for all major due dates, which could also have a material adverse effect on the ABANCA Group's business, financial condition and results of operations.

Finally, as regards market liquidity, sudden changes in market conditions (interest rates and creditworthiness in particular) can have significant effects on the time to sell, including for high-quality assets, typically represented by government securities. The "dimensional scale" factor plays an important role for the ABANCA Group, insofar as it is plausible that significant liquidity deficits, and the consequent need to liquidate high-quality assets in large volumes, may change market conditions. In addition to this, the consequences of a possible downgrade of the price of the securities held and on the criteria applied by the counterparties in repos operations could make it difficult to ensure that the securities can be easily liquidated under favourable economic terms.

In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). In addition to its day-to-day management, the ABANCA Group must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

The lack of liquidity in the ABANCA Group could have a substantial negative impact on its activities, financial situation and operating result.

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

The liquidity coverage ratio ("LCR") is the short-term indicator which expresses the ratio between the amount of available assets readily monetisable (cash and the readily liquidable securities held by the ABANCA Group) and the net cash imbalance accumulated over a 30-day liquidity stress period. It is a quantitative liquidity standard developed by the Basel Committee on Banking Supervision ("BCBS") and provided for in CRR to ensure that those banking organisations which this standard is to apply to (including the ABANCA Group) have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and since January 2015 has been progressively phased-in. Since 1 January 2018, the entities to which this standard applies (including the ABANCA Group) must comply with 100% of the applicable LCR requirement. The LCR of the ABANCA Group was 225% as of 30 June 2018 (229% as of 31 December 2017 and 265% as of 31 December 2016).

The BCBS's net stable funding ratio ("NSFR") is the 12-month structural liquidity indicator which corresponds to the ratio between the available amount of stable funding and the statutory amount of stable funding. It has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplated in the Basel III phase-in arrangements document that the NSFR, including any revisions, would be implemented by member countries as a minimum standard by 1 January 2018, with no phase-in scheduled. On 23 November 2016, the European Commission published, among the Proposals (as defined below), a proposal for a European Directive amending CRR, where it proposed to implement the BCBS standard on NSFR introducing some adjustments. The NSFR ratio of the ABANCA Group was 125% as of 30 June 2018 (129% as of 31 December 2017 and 126% as of 31 December 2016).

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

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

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

The ABANCA Group's results of operations depend upon the level of its net interest income, which is the difference between interest income from loans and other interest-earning assets and interest expense paid to its depositors and other creditors on interest-bearing liabilities. For the one-year period ended on 31 December 2017, the net interest income was €488.50 million and represented a 60.22% of the gross margin (for the one-year period ended on 31 December 2016, the net interest income was €407.92 million and represented 62.27% of the gross margin). As of 30 June 2018, the net interest income was €257.77 million and represented a 53.34% of the gross margin. The net interest income is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of ABANCA—Alternative Performance Measures*".

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

Changes in market interest rates may affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and subsequently affect the ABANCA Group's results of operations. Consequently, fluctuations in interest rates may therefore have a material adverse effect on the ABANCA Group's business, financial condition and results of operations.

The ABANCA Group could generate less income from commissions

The net fees and commissions of the ABANCA Group reached €169.76 million during the one-year period ended on 31 December 2017 and €151.82 million during the one-year period ended on 31 December 2016, representing 21% and 23% respectively of the consolidated gross margin of the ABANCA Group for each of the said periods. In the first semester of 2018 net fees and commissions of the ABANCA Group reached €88.18 million (18% of the consolidated gross margin). Even though the income from commissions of the ABANCA Group increased by 11.8% between 31 December 2016 and 31 December 2017 and 0.7% in the first six months of 2018 (year-on-year), a stagnation of the markets or an increase in competition in the future could cause a decrease in the number of transactions carried out on behalf of its customers and, as a consequence, a decrease in the income from commissions of the ABANCA Group. Net fees and commissions is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of ABANCA—Alternative Performance Measures*".

In the event that the current structure of interest rates (at historically low levels) is maintained in the long term, an increase in the volume of income from commissions could be required. Therefore, the ABANCA

Group could be forced to increase the number of transactions subject to commissions or to increase the amount of the commissions currently charged to customers.

Furthermore, the activity of the ABANCA Group requires an important ability to anticipate and adapt to constant technological innovations. Although in the last years the ABANCA Group has adopted measures both to reduce technological obsolescence and to increase the services it provides through its network and non-in situ platforms, these measures might not be sufficient and, therefore, a lack of adaptation by the ABANCA Group to all these technological advances could limit the provision of services to its customers and negatively affect its income.

In the event that the ABANCA Group should suffer a significant reduction in income due to a decline in services and commissions, or does not manage to adjust, where necessary, its commissions policy to the new interest rate structure, there could be a substantial negative impact on its activities, financial situation and operating result.

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

The markets in which the ABANCA Group operates are highly competitive and the ABANCA Group faces substantial competition in all parts of its business, including in originating loans and in attracting deposits. Financial sector reforms in these markets (mainly in Spain) have increased competition among both local and foreign financial institutions, and the ABANCA Group believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the ABANCA Group must now compete, some of which have received public capital. This trend is expected to continue as the Bank of Spain continues to impose measures aimed at restructuring the Spanish financial sector, including requirements that smaller, non-viable regional banks consolidate into larger, more solvent and competitive entities, and reducing overcapacity. There can be no assurance that this increasing competition will not adversely affect the growth prospects of the ABANCA Group, and therefore its operations.

The ABANCA Group also faces competition from non-bank competitors, such as department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies, and public debt. In addition, the ABANCA 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 ABANCA Group cannot be certain that this competition will not adversely affect its competitive position.

Non-traditional providers of banking services, such as internet-based e-commerce providers, mobile telephone companies and internet search engines may offer and/or increase their offerings of financial products and services directly to customers. These non-traditional providers of banking services currently have an advantage over traditional providers because they are not subject to banking regulation. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. They may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. New competitors may enter the market or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services.

If the ABANCA Group is unable to successfully compete with current and new competitors, or if it is unable to anticipate and adapt its offerings to changing banking industry trends, including technological changes, the ABANCA Group's business may be adversely affected. In addition, the ABANCA Group's failure to effectively anticipate or adapt to emerging technologies or changes in customer behaviour, including among younger customers, could delay or prevent the ABANCA Group's access to new digital-based markets, which would in turn have an adverse effect on its competitive position and business.

The rise in customer use of internet and mobile banking platforms in recent years could negatively impact the ABANCA Group's investments in bank premises, equipment and personnel for its branch network. The persistence or acceleration of this shift in demand towards internet and mobile banking may necessitate changes to the ABANCA Group's retail distribution strategy, which may include closing and/or selling certain branches and restructuring its remaining branches and work force. These actions could lead to losses on these assets and may lead to increased expenditures to renovate, reconfigure or close a number of the

ABANCA Group's remaining branches or to otherwise reform its retail distribution channel. Furthermore, the ABANCA Group's failure to swiftly and effectively implement such changes to its distribution strategy could have an adverse effect on its competitive position.

Increasing competition could also require that the ABANCA Group increases its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the ABANCA Group, including its profitability. It may also negatively affect the ABANCA Group's business results and prospects by, among other things, limiting its ability to increase its customer base and expand its operations and increasing competition for investment opportunities.

If the ABANCA Group's customer service levels were perceived by the market to be materially below those of its competitor financial institutions, the ABANCA Group could lose existing and potential business. If the ABANCA Group is not successful in retaining and strengthening customer relationships, the ABANCA Group may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its operating results, financial condition and prospects.

Any reduction in the Bank's credit rating could increase the Bank's and/or the ABANCA Group's cost of funding and adversely affect the ABANCA Group's interest margins

The Bank is rated by various credit rating agencies (see "*Description of ABANCA—Credit ratings*"). The credit ratings of the Bank are an assessment by rating agencies of its ability to pay its obligations when due. Credit ratings affect the cost and other terms upon which the Bank and/or the ABANCA Group is able to obtain funding. Rating agencies regularly evaluate the ABANCA Group and the ratings of the Bank's long-term debt are based on a number of factors, including the Bank's financial strength as well as conditions affecting the financial services industry generally. Credit ratings are subject to the evaluation of the financial strength of a company in accordance with the methodology applied by rating agencies.

In addition, since ABANCA is a Spanish company with substantial operations in Spain, its rating is affected by the sovereign rating of Spain, which is the maximum level achievable by ABANCA. Any decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a decline in ABANCA's credit ratings.

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

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

Market risk

The ABANCA Group is exposed to market risk as a consequence of its trading activities in financial markets and through the asset and liability management of its overall financial position, including the ABANCA Group's trading portfolio and other equity investments. Therefore, the ABANCA Group is exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices. The performance of financial markets may cause changes in the value of the ABANCA Group's investment, available for sale and trading portfolios. In some of the ABANCA 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 ABANCA Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the ABANCA Group for which there are less liquid markets. The volatile nature of the financial markets could result in unforeseen losses for the ABANCA Group.

As of 30 June 2018, excluding the credit investment portfolio, the exposure of the ABANCA Group subject to market risk came to a total €7,235.84 million in fixed income securities and €204.91 million in listed variable income securities (€8,385.77 million and €104.91 million, respectively, as of 31 December 2017 and €5,624.91 million and €131.18 million, respectively, as of 31 December 2016). The fixed income portfolio exposed to market risk mainly comprises government bonds, as of 30 June 2018, 38.66% corresponds to sovereign bonds of the Spanish government, 36.93% to bonds of other countries of the Monetary Economic Union and 11.94% to bonds of government agencies, autonomous regions and bonds backed by the Spanish government (41.39%, 36.23% and 11.47%, respectively, as of 31 December 2017 and 63.30%, 14.83% and 14.94%, respectively, as of 31 December 2016). As of 30 June 2018, the book value of derivatives subject to market risk was €126.77 million (€132.33 million and €198.97 million as of 31 December 2017 and 31 December 2016, respectively), of which €110.17 million were trading derivatives and €16.60 million hedge derivatives (€100.32 million and €32.01 million, respectively as of 31 December 2017 and €141.05 million and €57.92 million, respectively, as of 31 December 2016).

A standard measure to evaluate market risk is "VaR" (Value at Risk). As of 30 June 2018, the VaR of the fixed income and listed variable income portfolio (excluding the held-to-maturity portfolio and the credit investment portfolio) of the ABANCA Group, considering a daily time horizon and a confidence level of 99%, was €46.18 million (€21.9 million as of 31 December 2017 and €20.4 million as of 31 December 2016). In other words, on average, 99 out of 100 times, the real daily losses for the securities portfolio were lower than those reflected by the VaR.

Further, the value of certain financial instruments (such as derivatives not traded on stock exchanges or other public trading markets) are recorded at fair value, which is determined by using financial models other than publicly quoted prices that incorporates assumptions, judgements and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for the ABANCA Group in the case of any asset devaluations. Furthermore, monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the ABANCA Group does not anticipate.

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

The non-recovery of certain tax assets could negatively affect the ABANCA Group

As of 30 June 2018 ABANCA had deferred tax assets amounting to a total of €3,343.39 million (€3,290.22 million as of 31 December 2017 and €3,302.94 million as of 31 December 2016). These tax assets or credits originate mainly from (i) accounting expenditure not tax-deductible in the year it is reported, but that could be in the future (pre-paid taxes); (ii) negative tax bases in corporation tax due to the losses of the corresponding financial year; and (iii) certain deductions in corporation tax which cannot be applied in the corresponding financial year if the tax base of such tax is negative.

Pursuant to Law 27/2014, of 27 November, on CIT, as amended (the "CIT Law"), of the €3,343.39 million of deferred tax assets mentioned above, ABANCA considers that €2,658.11 million would become government debt securities (monetisable) if, after 18 years have passed (as from 31 December 2014 or from the accounting record of the tax asset, whichever date is the latest), said tax assets have not been able to be recovered. In this respect, ABANCA plans to pay the financial contribution established under the Additional Provision Thirteen of the CIT Law, having established a provision amounting to €34.28 million in the financial statements for the year ended on 31 December 2017, that was paid in July 2018, and a provision amounting to €17.1 million in the financial statements for the 6-month period ended on 30 June 2018. Consequently, as of 30 June 2018 the relevant provision in the financial statements amounts to €51.38.

The future recovery by the ABANCA Group of part of such tax assets will be subject to different time limitations depending on their origin (15 years for deductions pending application regulated by the CIT Law, except for any deduction for research and development and technological innovation activities, the

offset deadline for which is 18 years). In addition, there is no time limitation for the offset of negative tax bases and deductions to avoid double taxation. Furthermore, the potential recovery of these tax assets is conditioned or limited by the existence of certain assumptions, such as the obtaining of sufficient profits; the non-reduction of corporation tax; or mistakes or discrepancies with the Spanish tax authorities in the settlement of such tax.

In the event that, in the future (i) the ABANCA Group should not generate profits (or should these be insufficient) within the period established by law in order to offset any non-monetisable tax credits; (ii) corporation tax was reduced; (iii) mistakes are detected in the tax settlements performed, or there are discrepancies therein as a result of verification actions by the Spanish tax authorities; or (iv) there are amendments in the regulations in force, or in the way in which they are applied or interpreted, the ABANCA Group could see the possibility of recovering the amount of these tax assets partly or completely restricted, in which case there could be a material negative impact on the activities, financial situation and operating result of the ABANCA Group.

Operational risks are inherent in the activity of the ABANCA Group

The business of the ABANCA Group depends on the ability to process a large number of transactions efficiently and accurately on a daily basis. The operational risks to which the ABANCA Group is exposed include those deriving from processing errors, system failures, low productivity and the inadequate qualifications of staff, deficient customer service, natural disasters or external system failures, such as administrative or accounting mistakes, errors in the computer or communication systems, as well as external events that could undermine the operations or the image of the ABANCA Group. Given the large number of transactions carried out, such mistakes could be made repeatedly and accumulate before they are discovered and remedied. Furthermore, the implementation of a prior risk assessment is not a sufficient guarantee of an accurate estimate of the costs deriving from such errors.

In addition, the ABANCA Group is inherently exposed to the risk of business discontinuity in the event of contingencies such as a breakdown in communications or the electrical supply, or failure in the equipment or computer systems, or in the event of other disasters such as earthquakes, fires, explosions or floods. Despite the precautions taken in relation to these risks, it is not always possible to avoid or prevent technological or operational failures, and the ABANCA Group could incur losses exceeding the insurance coverage available for its activity.

Any failure causing an interruption of its service or that slows down its response capacity could damage the reputation, business and brands of the ABANCA Group, as well as cause an impact on its customers' ability to use its systems. Therefore, the ABANCA Group could be subject to claims filed by its customers aimed at recovering losses they might have suffered as a result of any of the aforementioned facts. Furthermore, the ABANCA Group could be subject to claims for losses and damages, as well as to penalties and disciplinary sanctions, in the event of any delay or omission by it in the processing and registration of transactions, or any breach in internal control. The foregoing could cause financial damages and/or damage to the image of ABANCA, which in turn might have a negative impact on the activities, financial situation and operating results of the ABANCA Group.

Furthermore, the information technology systems are vulnerable to a series of problems, such as the malfunctioning of hardware and software, computer virus, hacking and computer attacks. The information technology systems need regular updates, and it is possible that the ABANCA Group might not be able to implement the necessary updates in due course or that the updates might not work as anticipated. Moreover, the lack of protection of the transactions of the ABANCA Group and the financial sector against cyberattacks could cause the loss of data or compromise consumer data or other sensitive information. These threats are increasingly sophisticated and there cannot be any assurance that the ABANCA Group or the financial sector in general could avoid all failures, incursions and other attacks on its systems. Apart from the costs that might be incurred as a result of any failure in the information technology systems, the ABANCA Group may have to face sanctions from banking regulatory agencies in the event of failing to comply with the banking or information regulations applicable.

The secure transfer of confidential information constitutes an essential element of the transactions of the ABANCA Group, especially with the entry into effect of Regulation (EU) 2016/679 (General Data Protection Regulation), which, among other aspects, considerably increases the sanctions in this regard. However, ABANCA cannot completely guarantee that current security measures could prevent any breach of its security systems caused, for example, by break-ins at its facilities, computer viruses, acts of sabotage

and other contingencies. Any person who might circumvent the security measures of the ABANCA Group could make unlawful use of its confidential information or of the confidential information of its customers, which could expose the ABANCA Group to the risk of losses, negative disciplinary consequences and lawsuits.

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

A significant percentage of the loans to customers of the ABANCA Group is especially sensitive to a downturn in the economy, which could negatively affect the ABANCA Group

The ABANCA Group is exposed to concentration risk, which is defined as the possibility of material losses occurring deriving from the level of exposure in a portfolio with certain common features (i.e. the possibility of material losses occurring as a result of the risk of concentration in a private economic group considered to be of great exposure, a reduced group of borrowers whose main source of income comes from the same sector or geographic area in relation to a specific product). The portfolio of loans to customers of the ABANCA Group consists mainly of loans to large, medium and small enterprises ("SMEs"), and mortgage and consumer loans granted to individual customers.

Large-scale companies are highly exposed to external and internal economic development, and some of them are in a process of reducing their debt. In this sector, there is a higher concentration per client of credit risk and, therefore, any increase in their default could reduce the income of ABANCA.

In the case of households and SME with a high level of debt, it is more likely for them to have difficulties in complying with their debt obligations due to unfavourable economic circumstances, which could have a negative impact on the income from interest of the ABANCA Group. Furthermore, the high debt of households and of SMEs also limits their capacity to incur any further debt, which reduces the number of new products which, under other circumstances, the ABANCA Group could sell, and it restricts its ability to attract new customers who comply with its credit rating levels, and this could negatively affect the ABANCA Group's business activities.

The availability of complete and accurate financial information, as well as general credit information, on the basis of which decisions concerning loans can be made, is more limited with regard to SMEs than with regard to large-scale corporate customers, and it is even more limited in the case of individual customers. The evaluation of the financial situation of SMEs and individuals entails greater difficulties and, as a result, it is possible to make more mistakes when trying to obtain an accurate evaluation of the credit risk of these borrowers, which could cause an increase in defaulting. In the event of any mistakes in the definition, application or use of the said models, the ABANCA Group could suffer losses due to decisions based mainly on the results of such models.

The foregoing could have a substantial negative impact on the activities, financial situation and operating result of the ABANCA Group.

ABANCA and the ABANCA Group's business could be affected if their capital is not effectively managed

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

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

Debt and equity investors, analysts and other market professionals may also have a preference for 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 ABANCA's and the ABANCA Group's borrowing costs, limit its

access to capital markets or result in a downgrade in the credit ratings of ABANCA, which could have a material adverse effect on its business, financial condition and results of operations.

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

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

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

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

The ABANCA Group has lending exposure to risks in the property development and construction sector, with loans for property construction and/or development amounting to €767.2 million (2.5% of the ABANCA Group's total gross loans and receivables to customers) as of 30 June 2018 (€670.5 million (2.2% of the ABANCA Group's total gross loans and receivables to customers) as of 31 December 2017 and €521.9 million (1.8% of the ABANCA Group's total gross loans and receivables to customers) as of 31 December 2016). The NPL ratio on loans to real-estate developers as of 30 June 2018 was 8.5% (8.7% as of 31 December 2017 and 15.3% as of 31 December 2016) and provisions for this exposure as of 30 June 2018 amounted to €41.9 million (€35.8 million as of 31 December 2017 and €54.3 million as of 31 December 2016), representing 64.5%, 61.0% and 68.1% of coverage of NPL on loans to real-estate developers as of 30 June 2018, 31 December 2017 and 31 December 2016, respectively. Out of the €767.2 million in loans for property construction and/or development as of 30 June 2018, €556.2 million corresponded to loans secured by mortgages, while €211 million corresponded to unsecured loans (as of 31 December 2017, out of the €670.5 million in loans for property construction and/or development, €503.3 million corresponded to loans secured by mortgages, while €167.2 million corresponded to unsecured loans). NPL ratio on loans to real-estate developers and coverage of NPL on loans to real-estate developers ratio are alternative performance measures ("APMs"), the definition, explanation, use and reconciliation of which is set out in "*Description of ABANCA—Alternative Performance Measures*".

Additionally, as of 30 June 2018 the ABANCA Group portfolio of foreclosed real estate assets stood at €922.76 million (out of which, 51% corresponded to residential assets, 19% non-residential assets and 30% to other assets). As of 31 December 2017 the ABANCA Group portfolio of foreclosed real estate assets stood at €1,008.88 million and at €1,090.28 million as of 31 December 2016. The gross book value of foreclosed assets sold in 2017 was €177.2 million (€163.9 million in 2016 and €181.6 in 2015) and €104.8 million in the first semester of 2018. As of 30 June 2018 foreclosed assets coverage ratio was 61.2% (61.1% as of 31 December 2017). Foreclosed land assets coverage ratio reached 76.9% as of 30 June 2018 (75.5% as of 31 December 2017). Foreclosed assets coverage ratio and Foreclosed land assets coverage ratio are APMs, the definition, explanation, use and reconciliation of which are set out in "*Description of ABANCA—Alternative Performance Measures*".

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

Damage to the ABANCA Group's reputation could cause harm to its business prospects

Maintaining a positive reputation is critical to protect the ABANCA Group's brand, to attract and retain customers, investors and employees and to conduct business transactions with counterparties. Damage to the ABANCA Group's reputation can therefore cause significant harm to its business and prospects.

Harm to the ABANCA Group's reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by the ABANCA Group's employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, dealing with sectors that are not well perceived by the public, dealing with customers in sanctions lists, rating downgrades, significant variations in our share price throughout the year, compliance failures, unethical behaviour, and the activities of customers and counterparties. Further, negative publicity regarding the ABANCA Group may result in harm to its prospects. Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect the ABANCA Group's reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of the ABANCA Group and others in the financial services industry to decline.

The ABANCA Group could suffer significant reputational harm if it fails to identify and manage potential conflicts of interest properly. The failure, or perceived failure, to adequately address conflicts of interest could affect the willingness of clients to deal with the ABANCA Group, or give rise to litigation or enforcement actions against it. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the ABANCA Group.

The ABANCA Group may face business combination risks

The ABANCA Group may in the future undertake acquisitions and/or divestments of businesses, operations, assets and/or entities. Acquisitions and divestment transactions may involve complexities and time delays, for example in terms of integrating and/or merging businesses, operations and entities, and targeted benefits may, therefore, not be achieved or be delayed. Furthermore, the ABANCA Group may incur unforeseen liabilities from former and future acquisitions and divestments which could have a material adverse effect on our business, financial condition and capital, results of operations and prospects.

In particular, the acquisition of Deutsche Bank AG's private and commercial client banking unit in Portugal ("PCC") represented the first cross-border acquisition for the ABANCA Group and, as in any acquisition, it involves certain business combination risks. Please see "*Description of ABANCA—History*" for further information on the acquisition of PCC.

Additionally, ABANCA is currently evaluating other acquisition opportunities that may affect its solvency position. ABANCA was shortlisted for the potential acquisition of Banco Caixa Geral, S.A. as disclosed by the Portuguese Republic and on 10 September 2018 submitted a binding offer. ABANCA expects this process to be concluded before year end. For reference, as of 31 December 2017 Banco Caixa Geral, S.A.'s consolidated RWAs amounted to €3,141.14 million and its consolidated Tier 1 capital to €484.25 million (*source*: audited annual individual accounts of Banco Caixa Geral, S.A. as of and for the year ended 31 December 2017). However, in the event of any successful acquisition, ABANCA intends to continue maintaining a solid solvency position and buffer to the Maximum Distributable Amount (as defined below), although there is no certainty that ABANCA will achieve it.

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

The financial services industry is among the most highly regulated industries in the world. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and

others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crisis. The ABANCA Group's operations are subject to ongoing regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the EU and the other markets in which it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector which is expected to continue for the foreseeable future. This creates significant uncertainty for the Bank and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures. As a result, the ABANCA Group may be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability.

In addition, the new institutional structure in Europe for supervision, with the creation of the single supervisory mechanism (the "SSM"), and for resolution, with the new single resolution mechanism ("SRM"), could lead to additional changes in the near future. The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still ongoing. In addition, since some of these laws and regulations have been recently adopted, the manner in which they are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the ABANCA Group's business, financial condition and results of operations. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

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

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

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

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

These regulations may limit the ABANCA Group's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms, the ABANCA Group may experience a material adverse effect on its financial condition and regulatory capital position. Any required changes to

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

In addition, the accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the individual and consolidated financial statements. These changes can materially impact how the ABANCA Group records and reports its financial condition and results of operations. In some cases, the ABANCA Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. Specifically, the ABANCA Group's results may be adversely affected by the proposed changes to the classification and measurement of financial assets arising from IFRS 9 Financial Instruments, which require, among others, the development of an impairment methodology for calculating the expected credit losses on the ABANCA Group's financial assets and commitments to extend credit, instead of incurred losses. This methodology could imply more volatility in profit and loss when estimating the value of existing exposures arising from macroeconomic variations. The impact on ABANCA's individual and the ABANCA Group's consolidated fully-loaded CET1 ratio has been a decrease of approximately 18 basis points and the impact on ABANCA's individual and the ABANCA Group's consolidated volume of impairments represents an increase of approximately 5% over the current level of provisions. This increase in provisions is mainly due to non-impaired risks that would be classified within Stage-2, which are the risks most affected by the change in the calculation methodology of provisions. Notwithstanding the foregoing, the European Parliament and the European Commission have established a transitional mechanism for the progressive adaptation of the impact of IFRS 9 on capital ratios, so that the estimated average impact on the CET1 phase-in ratio of 2018 implies a decrease of 1 basis points.

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 ABANCA Group's business, financial condition and results of operations. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the ABANCA 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 ABANCA Group may face higher compliance costs.

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

The Bank is subject to the CRR, the CRD IV Directive and any CRD IV Implementing Measures, with certain requirements in the process of being phased-in during upcoming years. The core regulation regarding the solvency of credit entities is the CRR which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU member states.

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

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

Moreover, Article 104 of CRD IV Directive, as implemented by Article 68 of Law 10/2014, also contemplates that in addition to the minimum "Pillar 1" capital requirements, the supervisory authorities may require further capital to cover other risks. This may result in the imposition of further CET1, Tier 1 and total capital requirements on ABANCA pursuant to this "Pillar 2" framework. Following the introduction of the SSM, the ECB is in charge of assessing additional "Pillar 2" capital requirements through supervisory review and evaluation process (the "**SREP**") assessments to be carried out at least on an annual basis (accordingly requirements may change from year to year).

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

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

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

In addition, the Bank of Spain agreed on 7 June 2018 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0% for the third quarter of 2018 (percentages will be revised each quarter).

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

As set out in the "*Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions*" published on 16 December 2015 (the "**December 2015 EBA Opinion**"), competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount (as defined below) calculation is limited to the amount not used to meet the minimum "Pillar 1" capital requirements and the "Pillar 2" capital requirements of the institution and, accordingly, the "combined buffer requirement" is in addition to the minimum Pillar 1 capital requirement and to the "Pillar 2" capital requirement, and therefore it would be the first layer of capital to be eroded pursuant to the applicable stacking order. The Proposals (as defined below) amending CRR published on 23 November 2016 and the draft guidelines on the revised common procedures and methodologies for the SREP and supervisor stress testing published by the EBA on 31 October 2017 (the "**EBA Draft Guidelines**") also clarify the stacking order of the minimum "Pillar 1" capital requirements, the "Pillar 2" capital requirements ("**P2R**") and combined buffer requirements in the same way.

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

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

which the Bank of Spain has adopted any of the measures set forth in Article 68.2 of Law 10/2014 aimed at strengthening own funds or limiting or prohibiting the distribution of dividends.

As communicated by the EBA on 1 July 2016, in addition to the minimum "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" capital guidance ("**P2G**"). Banks are expected to meet the P2G, which is set on top of the level of binding capital (minimum "Pillar 1" capital requirements 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. The Proposals also contemplate a distinction between P2R and P2G, only P2R being a mandatory requirement, and have added that, in addition to certain other measures, the supervisor is entitled to impose further P2R where an institution repeatedly fails to follow its P2G. The P2G is not public.

In December 2017, the Bank received the decisions of the ECB regarding minimum capital requirements for 2018 following the outcomes of the most recent SREP. These decisions required ABANCA to maintain, on the basis of the consolidated situation on ABANCA Holding Group and on an individual basis, a phased-in CET1 ratio of 7.875% of RWAs and a total capital ratio of 11.375% of RWAs (8.50% and 12.00% of RWAs, respectively, fully loaded). These ratios include the minimum "Pillar 1" capital requirements (CET 1 ratio of 4.50% of RWAs and total capital ratio of 8% of RWAs), the P2R (1.50% of RWAs that implies a 25 basis points reduction from the 2017 P2R) and the capital conservation buffer (1.875% of RWAs). For information on the CET 1 and total capital ratios of ABANCA and of ABANCA Holding Group as of 31 December 2017 please see "*Description of ABANCA —Capital adequacy*".

Although as of the date of this Prospectus ABANCA is not required to comply with any capital requirements at its consolidated level, it cannot be ruled out that such might be the case in the future. In fact, that is the expectation of ABANCA, bearing in mind the growth and diversification strategy of the ABANCA Group, the increased focus of supervisors on consolidated levels and the reason why a Trigger Event has been defined in the Conditions by reference to the CET1 ratio of the ABANCA Group.

In addition to the above, Article 429 of the CRR requires institutions to calculate their leverage ratio in accordance with the methodology laid down in that article. On 10 January 2016, the Group of Governors and Heads of Supervision ("**GHOS**") of the BCBS set an indicative benchmark consisting of 3% 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 amending the CRR contain a binding 3% Tier 1 capital leverage ratio requirement. Under the Proposals, any breach of this leverage ratio could also result in a requirement to determine the Maximum Distributable Amount and restrict discretionary payments to such Maximum Distributable Amount, as well as the consequences of, and pending, such calculation as specified above.

Any failure by the Bank to comply with its regulatory capital requirements could result in the imposition of administrative actions or sanctions, such as further P2Rs or the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms ("**Law 11/2015**"), which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 ("**Royal Decree 1012/2015**") have implemented Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") into Spanish law, which could have a material adverse effect on the ABANCA Group's business and operations.

In addition to the minimum capital requirements under CRD IV, the BRRD regime prescribes that banks shall hold a minimum level of capital and eligible liabilities in relation to total liabilities and own funds (known as "**MREL**"). The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on the resolution plan and other criteria. The resolution authority for ABANCA is the SRB. 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 to ABANCA and

therefore, the quantum, the requirements to qualify as eligible liabilities and the compliance calendar remain all as open questions.

On 9 November 2015, the FSB published its final Total Loss-Absorbing Capacity ("**TLAC**") Principles and Term Sheet, proposing that G-SIIs 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-SIIs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIIs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each G-SII at the greater of (a) 16% of RWAs as of 1 January 2019 and 18% as of 1 January 2022, and (b) 6% of the Basel III Tier 1 leverage ratio exposures as of 1 January 2019, and 6.75% as of 1 January 2022. Under the FSB TLAC standard, capital buffers stack on top of the minimum TLAC requirements. Although the Bank has not been classified as a G-SII by the FSB, it cannot be disregarded that TLAC requirements are finally extended to non-G-SIIs which could create additional minimum capital or other requirements for ABANCA and/or the ABANCA Group.

On 23 November 2016, the European Commission published among other a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No 806/2014 effective from 1 January 2015 (the "**SRM Regulation**"). Additionally, the European Commission proposed an amending directive to facilitate the creation of a new asset class of "non-preferred" senior debt (the aforementioned proposals, together, the "**Proposals**"). The Proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities, changes to the definitions of Tier 2 and Additional Tier 1 instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. On 25 May 2018 the Council of the EU agreed its stance on the Proposals, which will be considered by the co-legislators in trilogue negotiations. Therefore, the Proposals remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until all the Proposals are in final form and are finally implemented into the relevant legislation, it is uncertain how the Proposals will affect ABANCA or the Holders.

Notwithstanding, the Proposals regarding the harmonised national insolvency ranking of unsecured debt instruments and the recognition of the "non-preferred" senior debt has been implemented in the EU through the Directive (EU) 2017/2399 amending the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy. In Spain, the new class of "non-preferred" senior debt and its insolvency ranking were introduced earlier through the Royal Decree-Law 11/2017.

Although TLAC and MREL pursue the same regulatory objective, there are, nevertheless, some differences between them in the way they are constructed. 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**"), 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), thereby avoiding duplication from the application of two parallel requirements.

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

Additionally, the Basel Committee is currently in the process of reviewing and issuing recommendations in relation to risk asset weightings which may lead to increased regulatory scrutiny of risk asset weightings in the jurisdictions who are members of the Basel Committee.

On 7 December 2017, the GHOS published the finalisation of the Basel III post-crisis regulatory reform agenda. This review of the regulatory framework covers credit, operational and credit valuation adjustment (CVA) risks, introduces a floor to the consumption of capital by internal ratings-based methods (IRB) and the revision of the calculation of the leverage ratio. The main features of the reform are: (i) a revised standard method for credit risk, which will improve the soundness and sensitivity to risk of the current method; (ii) modifications to the IRB methods for credit risk, including input floors to ensure a minimum level of conservatism in model parameters and limitations to its use for portfolios with low levels of non-compliance; (iii) regarding the CVA risk, and in connexion with the above, the removal of any internally modelled method and the inclusion of a standardised and basic method; (iv) regarding the operations risk, the revision of the standard method, which will replace the current standard methods and the advanced measurement approaches (AMA); (v) the introduction of a leverage ratio buffer for G-SIIs; and (vi) regarding capital consumption, it establishes a minimum limit on the aggregate results (output floor), which prevents the RWAs of the banks generated by internal models from being lower than the 72.5% of the RWAs that are calculated with the standard methods of the Basel III framework. The GHOS have extended the implementation of the revised minimum capital requirements for market risk until January 2022, to coincide with the implementation of the reviews of credit, operational and CVA risks. There is uncertainty with regards to how and when they will be implemented in the EU. In light of the above, it should not be disregarded that new and more demanding additional capital requirements may be applied in the future.

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

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

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

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

Among the legal proceedings in which the ABANCA Group is involved there are several proceedings related to mortgage "floor clauses" (in connection with which ABANCA has set aside provisions amounting to €31 million as of 30 June 2018), proceedings related to the arrangement of interest rate hedges tied to mortgage loans granted to families and self-employed persons (in connection with which ABANCA has set aside provisions amounting to €18 million as of 30 June 2018) and proceedings related to the management of hybrid equity instruments and subordinated debt (in connection with which ABANCA has set aside provisions amounting to €16 million as of 30 June 2018). Please see "*The invalidity of what are known as "floor clauses" ("cláusulas suelo") and their total retroactivity could negatively affect the ABANCA Group*" below for further information on the proceedings related to mortgage "floor clauses".

These types of claims and proceedings may expose the ABANCA Group to monetary damages, direct or indirect costs or financial loss, civil and criminal penalties, loss of licenses or authorisations, or loss of reputation, as well as the potential regulatory restrictions on the ABANCA Group's businesses, all of which could have a material adverse effect on the ABANCA Group's business, financial condition and results of operations.

The invalidity of what are known as "floor clauses" ("cláusulas suelo") and their total retroactivity could negatively affect the ABANCA Group

Clauses known as "floor clauses" are those by virtue of which the borrower undertakes to pay a minimum interest rate to the lender, even in those cases in which the aggregate of the reference rate and the margin is lower than such minimum 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 reasoned that its 2013 ruling could not be retroactive and, thus, that the invalidity of these clauses should only have effects from 9 May 2013. However, in December 2016, the Court of Justice of the European Union declared that the time limit for the effects of the invalidity of "floor clauses" included in mortgage loans in Spain, set out by the referred Spanish case law, was incompatible with Council Directive 93/13/EEC, of 5 April 1993, on unfair terms in consumer contracts, insofar as such time limit involves incomplete and insufficient consumer protection and it upheld full retroactive reimbursement in relation to "floor clauses".

In January 2017, Royal Decree-law 1/2017, of 20 January, on urgent consumer protection measures in the matter of floor clauses ("**RDL 1/2017**") was approved. RDL 1/2017 encourages the search for out-of-court solutions between financial institutions and those consumers affected by certain "floor clauses", and its main purpose is to avoid saturation in the Spanish courts by adopting certain measures to encourage parties to reach an agreement. The financial institutions and consumers are not obliged to reach an agreement and, therefore, affected parties could sue the financial institutions, including ABANCA. ABANCA has initiated the proceedings established in RDL 1/2017, creating a specific unit to inform the affected parties of the existence of "floor clauses" in their loans and to address any claim they might file pursuant to the provisions of such RDL 1/2017.

The Bank is involved in individual proceedings related to mortgage "floor clauses" in connection with which it has set aside provisions amounting to €31 million as of 30 June 2018. In addition, the Bank is also involved in a class action related to mortgage "floor clauses".

In the sale and purchase agreement of NCG Banco, S.A. (currently ABANCA), the FROB agreed to compensate ABANCA for a percentage of the liabilities deriving from claims related to the marketing by NCG Banco, S.A. of mortgage loans containing "floor clauses" (which would partially cover liabilities deriving from both the individual proceedings and the class action). As a result, from the above mentioned €31 million provision for mortgage "floor clauses", €24 million would be covered by the existing guarantee set out in the sale and purchase agreement, and the contingencies derived from the class action would also be partially covered.

There remains significant uncertainty regarding how this decision by the Court of Justice of the European Union or future court decisions regarding this matter could affect the banking sector and how any such decision will be implemented in Spain. ABANCA cannot anticipate the number of future claims which could be filed by its customers and, consequently, cannot accurately determine the final negative impact which, in the future, the invalidity of any "floor clauses" included in its mortgage loans might have on its financial situation. The payments to ABANCA customers deriving from the invalidity of these "floor clauses" could have a substantial negative impact on the activities, financial situation and operating result of the ABANCA Group.

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

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

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

Due to the nature of the ABANCA Group's operations and the nature of the risks that it faces, there can be no assurance that the insurance coverage it maintains is adequate (the insurance coverage includes, among others, real estate damages coverage, cash transit coverage or coverage for the civil liability of officers). If the ABANCA Group were to suffer a significant loss for which it is not insured, its business, financial condition and results of operations could be materially adversely affected.

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

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

The financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on the ABANCA Group's ability to hire or retain the most qualified employees. If the ABANCA Group fails or is unable to attract and appropriately train, motivate and retain qualified professionals, its business may also be adversely affected.

Steps taken towards achieving an EU fiscal and banking union

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

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

The SSM (comprised by both the ECB and the national competent authorities) will help to make the banking sector more transparent, unified and safe. By virtue of the Council Regulation (EU) No 1024/2013 of 15 October conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the "**SSM Regulation**"), on 4 November 2014 the ECB assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the 120 largest European banks (including ABANCA). In preparation for this step, between November 2013 and October 2014 the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80% of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. On 26 October 2014, the ECB announced the results of the comprehensive assessment.

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

On 21 December 2016, the EBA published its decision to carry out its next EU-wide stress test in 2018 and to perform its regular annual transparency exercise in 2017. The information related to the transparency exercise of 2017 was published on 24 November 2017.

ABANCA cannot provide assurance that it will not be subject to recommendations from future EU-wide stress test or similar regulatory exercises which could have an impact on its current asset valuation policies, the classification of some of its exposures or cause other relevant effects.

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

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

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

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

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

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

Actuarial Risk

Actuarial risk is associated with the insurance business within the ABANCA Group's existing business lines and types of insurance. Actuarial risk reflects the risk arising from the execution of life and other insurance contracts, considering events covered and the processes used in the conduct of business, and distinguishing mortality, longevity, disability and morbidity risk. Management of this risk depends on actuarial management policies relating to subscription, pricing and accident rates. If actuarial risk was not correctly monitored and managed, it could adversely affect the ABANCA Group's business, financial condition and results of operations.

In addition, a new solvency framework for insurance and reinsurance companies operating in the EU, referred to as "**Solvency II**", entered into force as of 1 January 2016. The establishment of this new solvency framework started with the adoption of the European Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance of 25 November 2009, as amended by Directive 2013/58/EU of 11 December and by Directive 2014/51/EU of 16 April (the "**Solvency II Directive**"). The Solvency II Directive has been implemented in Spain through Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance undertakings and Royal Decree 1060/2015, of 2 December on the regulation, supervision and solvency of insurance and reinsurance undertakings.

Solvency II has changed former regulations as regards valuation of the balance sheet, calculation of technical reserves and measurement of admissible capital resources and required solvency. Under Solvency II, the issuance undertakings of the ABANCA Group are required to produce estimates that are based on assumptions and this exposes the ABANCA Group to the risk of these estimates being wrong either because the assumptions were not correct or because new factors not taken into account by the ABANCA Group arise.

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

Law 11/2015 and Royal Decree 1012/2015 have established a requirement for banks, including the Bank, to make at least an annual contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*) (the "**Deposit Guarantee Fund**") by member institutions. The total amount of contributions to be made to the National Resolution Fund by all Spanish banking entities must equal 1% of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund by 31 December 2024. The contribution is adjusted to the risk profile of each institution in accordance with the criteria set out in Royal Decree 1012/2015 and in the Commission Delegated Regulation (EU) 2015/63, of 21 October 2014, supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. In addition, the Fondo de Reestructuración Ordenada Bancaria (the "**FROB**") may request extraordinary contributions. Law 11/2015 has also established an additional charge (*tasa*) which shall be used to further fund the activities of the FROB as resolution authority, which charge (*tasa*) shall equal 2.5% of the above annual contribution to be made to the National Resolution Fund. The Bank may need to make contributions to the EU Single Resolution Fund, once the National Resolution Fund has been integrated into it, and will have to pay supervisory fees to the SSM.

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

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

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

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 ("**MiFIR**") and MiFID II), has introduced a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. Although MiFID II entered into force on 3 January 2018, it has only been partially transposed to the Spanish legislation by means of Royal Decree Law 21/2017, of 29 December, with regards to the conditions governing the operation of regulated markets, multilateral systems in financial instruments, organised trading facilities and infringements and sanctions. Therefore, there is still uncertainty as to whether the implementation of these new obligations

and requirements will have material adverse effects on the ABANCA Group's business, financial condition and results of operations.

ABANCA's and the ABANCA Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position

ABANCA has prepared its financial statements in accordance with Bank of Spain Circular 4/2004 and, from 1 January 2018, will prepare them in accordance with Bank of Spain Circular 4/2017. The ABANCA Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union (the "IFRS-EU"). These accounting regulations require the use of estimates and require management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect, then this could result in significant loss to ABANCA and the ABANCA Group beyond that anticipated or provided for, which could have an adverse effect on the ABANCA and the ABANCA Group's business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that ABANCA and the ABANCA Group hold at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the ABANCA and the ABANCA Group's financial statements.

The further development of standards and interpretations under Bank of Spain Circular 4/2017 or under IFRS-EU could also significantly affect the results of operations, financial condition and prospects of ABANCA and the ABANCA Group.

Failure to successfully implement and continue to improve the ABANCA Group's risk management policies, procedures and methods, including its credit risk management system, could materially and adversely affect the ABANCA Group, and the ABANCA Group may be exposed to unidentified or unanticipated risks

The management of risk is an integral part of the ABANCA Group's activities. The ABANCA Group seeks to monitor and manage its risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the ABANCA Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating the ABANCA Group's risk exposure in all economic market environments or against all types of risk, including risks that the ABANCA Group fails to identify or anticipate.

Some of the ABANCA Group's qualitative tools and metrics for managing risk are based upon its use of observed historical market behaviour. The ABANCA 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 ABANCA Group did not anticipate or correctly evaluate in its statistical models. This would limit the ABANCA Group's ability to manage its risks. The ABANCA Group's losses thus could be significantly greater than the historical measures indicate. In addition, the ABANCA Group's quantified modelling does not take all risks into account. The ABANCA Group's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. The ABANCA Group could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe the ABANCA Group's risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with the ABANCA Group. This could have a material adverse effect on the ABANCA Group's reputation, operating results, financial condition and prospects.

Failure to effectively implement, consistently monitor or continuously refine the ABANCA Group's credit risk management system may result in an increase in the level of NPL and a higher risk exposure for the ABANCA Group, which could have a material adverse effect on the ABANCA Group's business, financial condition and results of operations.

Risk relating to the Preferred Securities

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

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Prospectus, taking into account that the Preferred Securities are a suitable investment for professional or institutional investors only;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Write Down (as defined in the Conditions), redemption or substitution of the Preferred Securities and any variation of their terms, and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

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

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the FROB, the SRB or, as the case may be and according to Law 11/2015, the Bank of Spain or the CNMV or any other entity with the authority to exercise any such tools and powers

from time to time (each, a "**Relevant Resolution Authority**") as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest.

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

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

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

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

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

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

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

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

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

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

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

In addition to the BRRD, it is possible that the application of other relevant laws, such as the BCBS package of reforms to the regulatory capital framework for internationally active banks designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before taxpayers are exposed to loss and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in such a way as to result in the Preferred Securities

absorbing losses in the manner described above. Any actions by the Relevant Resolution Authority pursuant to the ones granted by Law 11/2015, or other measures or proposals relating to the resolution of institutions, may adversely affect the rights of Holders of the Preferred Securities, the price or value of an investment in the Preferred Securities and/or the Bank's ability to satisfy its obligations under the Preferred Securities.

The Preferred Securities are perpetual

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

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

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

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

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

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

- (i) the amount per Preferred Security which is determined by ABANCA to be necessary (in conjunction with (a) the concurrent Write Down of the other Preferred Securities and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments (as defined in the Conditions)) to restore the CET1 ratio of each of the Bank, the ABANCA Group and/or the ABANCA Holding Group, as applicable, to at least 5.125%; and
- (ii) the amount necessary to reduce the Outstanding Principal Amount of each Preferred Security to one cent (€0.01).

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

- (i) with respect to each Loss Absorbing Instrument (if any), such pro rata write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 ratio(s) to the lower of (a) such Loss Absorbing Instrument's trigger level and (b) 5.125% (being the level at which a Trigger Event occurs in respect of the Preferred Securities); and
- (ii) if for any reason ABANCA is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Preferred Securities will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted (and, in such circumstances, the relevant Write Down Amount may be higher than would otherwise have been the case).

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

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

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

A Write Down may occur on any one or more occasions, and the Outstanding Principal Amount of the Preferred Securities may be reduced in part or in whole (save that no Preferred Security shall be Written Down below one cent (€0.01)). Holders will not be entitled to any compensation or other payment as a result of any Write Down of the Preferred Securities. Accordingly, if a Trigger Event occurs, Holders could lose all or part of the value of their investment in the Preferred Securities if ABANCA subsequently redeems the Preferred Securities following the occurrence of a Tax Event or a Capital Event or a liquidation or winding-up of ABANCA occurs.

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

The circumstances that may give rise to a Trigger Event are unpredictable. In addition, circumstances not related to ABANCA or the ABANCA Group, but to its parent company, ABANCA Holding, could give rise to a Trigger Event

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's or the ABANCA Holding's control. For example, the occurrence of one or more of the risks described under "*Risks relating to ABANCA and the ABANCA Group*" (which can also have a negative impact on the activities, financial situation and operating result of the ABANCA Holding Group), or the deterioration of the circumstances described therein, will increase the likelihood of the occurrence of a Trigger Event (at any of its levels).

Furthermore, the occurrence of a Trigger Event depends on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the Bank's, the ABANCA Group's or the ABANCA Holding Group's businesses and their future earnings; expected payments by the Bank and/or ABANCA Holding in respect of dividends and distributions and other equivalent payments in respect of instruments ranking

junior to the Preferred Securities as well as other instruments ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities; regulatory changes (including possible changes in regulatory capital definitions and calculations of the CET1 ratio and its components or the interpretation thereof by the relevant authorities, including CET1 Capital and RWAs and the unwinding of transitional provisions under CRD IV); changes in the Bank's, the ABANCA Group's and the ABANCA Holding Group's structure or organisation and the Bank's, the ABANCA Group's and the ABANCA Holding Group's ability to manage actively their RWAs. 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 may have an adverse effect on the CET1 ratio. The CET1 ratios of each of the Bank, the ABANCA Group and the ABANCA Holding Group at any time may also depend on decisions taken by the Bank, the ABANCA Group or the ABANCA Holding Group in relation to their businesses and operations, as well as the management of their capital position. Neither the Bank, the ABANCA Group nor the ABANCA Holding Group will have any obligation to consider the interests of the Holders of the Preferred Securities in connection with their strategic decisions, including in respect of their capital management. Holders of the Preferred Securities will not have any claim against the Bank or any other member of the ABANCA Holding Group in relation to any such decision. In addition, since the CET1 ratios may be calculated 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 a Trigger Event may exist, it will be difficult to predict when, if at all, the Outstanding Principal Amount of the Preferred Securities will be written down. Accordingly, trading behaviour in respect of the Preferred Securities is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the CET1 ratio of the Bank, the ABANCA Group and/or the ABANCA Holding Group, is decreasing (and hence the risk of a Trigger Event occurring is becoming increasingly proximate) may have an adverse effect on the market price of the Preferred Securities. Under such circumstances, investors may not be able to sell their Preferred Securities easily or at prices comparable to other similar yielding instruments.

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

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

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.

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

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

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

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

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

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

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

The Bank will cancel any Distribution (in whole or in part) which could otherwise be paid on Distribution Payment Date if and to the extent that payment of such Distribution would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Bank. Distributable Items for the Bank amount to €790,399,054.59 as of 31 December 2017.

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

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

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

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

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

Under CRD IV, institutions are required to hold a minimum amount of regulatory capital of 8% of RWAs. In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional "Pillar 2" capital requirements that may be required to be maintained to address risks not considered to be fully captured by the minimum "own funds" requirements

or to address macro-prudential considerations, and this may similarly include, under the Proposals made by the European Commission on 23 November 2016, further regulatory requirements such as the TLAC/MREL Requirements.

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

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

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

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

- the "Maximum Distributable Amount" applies when the "combined buffer requirement" is not maintained. The "combined buffer requirement" represents the amounts of CET1 capital that a financial institution is required to maintain beyond the minimum "Pillar 1" capital requirements and (if applicable) "Pillar 2" required by applicable regulations. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained in years when profits are expected to be robust) and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;
- the capital conservation buffer and the institution-specific countercyclical buffer were implemented on 1 January 2016 on a phased-in basis continuing to 2019. The systemic risk buffer may be applied at any time upon decision of the relevant authorities. As a result, the potential impact of the "Maximum Distributable Amount" will change over time; and
- moreover, payments made earlier in the year will reduce the remaining "Maximum Distributable Amount" available for payments later in the year, and the Bank will have no obligation to preserve any portion of the "Maximum Distributable Amount" for payments scheduled to be made later in a given year. Even if the Bank attempts to do so, there can be no assurance that it will be successful, as the "Maximum Distributable Amount" at any time will depend on the amount of net income earned during the course of the relevant year, which will necessarily be difficult to predict.

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

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

Amongst other things, the *December 2015 EBA Opinion* (which does not have the force of law) included an opinion addressed to EEA competent authorities that they should ensure that the CET1 capital to be taken into account for the Maximum Distributable Amount calculation is limited to the amount not used to meet the minimum "Pillar 1" capital requirements and the "Pillar 2" capital requirements of the institution.

In effect, this would mean that "Pillar 2" capital requirements would be 'stacked' below the capital buffers, and thus a firm's CET1 capital resources would only be applied to meeting capital buffer requirements after the minimum "Pillar 1" capital requirements and the "Pillar 2" capital requirements have been met in full.

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

The ECB published a set of "*Frequently asked questions on the 2016 EU-wide stress test*", confirming this distinction between P2R and P2G and noting that under the stacking order, banks facing losses will first fail to fulfil their P2G. In case of further losses, they would next breach the combined buffers, then P2R, and finally the minimum "Pillar 1" capital requirements. P2R is binding and breaches can have direct legal consequences for banks, while P2G is not directly binding and a failure to meet P2G does not automatically trigger legal action, even though the ECB expects banks to meet P2G. Following this clarification, it is understood that P2G is not expected to trigger the automatic calculation of the Maximum Distributable Amount. The *EBA Draft Guidelines* and the Proposals made public by the European Commission on 23 November 2016 reflect the same stacking order. However, it cannot be disregarded that this position may change in the future.

Separately, certain regulatory proposals may restrict the Bank's ability to make discretionary payments in certain circumstances, in which case the Bank may reduce or cancel Distributions on the Preferred Securities. For example, under the Proposals made public 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% of RWAs "Pillar 1" CET1 capital requirement, (iii) its 6% of RWAs "Pillar 1" Tier 1 requirement, (iv) its 8% of RWAs "Pillar 1" total capital requirement, (v) its "Pillar 2" requirements, and (vi) 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's ability to make Distributions on the Preferred Securities and therefore the value of the Preferred Securities.

Furthermore, any determination of the capital of the Bank, the ABANCA Group and/or the ABANCA Holding Group and the compliance of the Bank, the ABANCA Group and/or the ABANCA Holding Group with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or a combination of which may not be easily observable or capable of calculation by Holders and some of which may also be outside of the control of the ABANCA Group. Any implementation of the Basel Committee on Banking Supervision's December 2017 "Basel III: Finalising post-crisis reforms" proposals may have an adverse effect on the Maximum Distributable Amount or Distributions. The risk of any cancellation (in whole or in part) of Distributions (including any additional amounts payable in accordance with Condition 12) on the Preferred Securities may not, therefore, be predicted in advance and any such cancellation of Distributions (including any additional amounts payable in accordance with Condition 12) on the Preferred Securities could occur without warning (see "*Increasingly onerous capital requirements constitute one of the ABANCA Group's main regulatory challenges*" for additional information).

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

As outlined in the risk factor "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. Additional capital requirements will restrict the Bank from making payments of Distributions*

on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. Payments on the Preferred Securities cannot exceed the Maximum Distributable Amount" above, the regulatory framework around the TLAC/MREL Requirement, including its implementation in Spain, is not yet in final form and is also the subject of the Proposals. If the Proposals are adopted in their current form, a failure by the Bank, the ABANCA Group and/or the ABANCA Holding Group to comply, where applicable, with the TLAC/MREL Requirements means the Bank could become subject to the restrictions on payments on Additional Tier 1 instruments, including the Preferred Securities (subject to a potential six-month grace period in case specific conditions are met).

The obligations of the Bank under the Preferred Securities are subordinated

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

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

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

There are no events of default

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

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

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

- (i) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with instruments qualifying as Tier 1 capital of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or
- (ii) the Bank has demonstrated to the satisfaction of the Competent Authority that the Tier 1 capital and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Competent Authority may consider necessary on the basis set out in CRD IV. The procedure by which such consent of the Competent Authority is to be obtained is further prescribed in Articles 29 to 31 of Commission Delegated Regulation (EU) No. 241/2014 of 7 January 2014.

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

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

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

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

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or, in the case of a redemption of the Preferred Securities for tax reasons, the official application or 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 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 exercise this option (subject to the prior consent of the Competent Authority) when its funding costs are lower than the Distribution Rate at which Distributions are then payable in respect of the Preferred Securities. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that Distribution Rate.

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

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

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

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

- (i) if the Bank exercises its rights to redeem the Preferred Securities in accordance with Condition 7 (on any Distribution Payment Date falling on or after the First Reset Date or upon the occurrence of a Capital Event or a Tax Event) or purchase the Preferred Securities in accordance with Condition 9;
- (ii) by selling their Preferred Securities, provided a secondary market exists at the relevant time for the Preferred Securities (see "*The secondary market in general*" for additional information); or
- (iii) if the Bank were wound up or liquidated (see "*The obligations of the Bank under the Preferred Securities are subordinated*" for additional information).

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

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

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

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

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

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

Substitution and variation of the Preferred Securities without Holder consent

Subject to Condition 8, if a Tax Event or a Capital Event occurs, the Bank may, instead of redeeming the Preferred Securities, at any time, without the consent of the Holders, and subject to receiving consent from the Competent Authority, either (a) substitute new preferred securities for all (but not some only) the Preferred Securities whereby such new preferred securities shall replace the Preferred Securities or (b) vary the terms of all (but not some only) the Preferred Securities, so that the Preferred Securities may become or remain Qualifying Preferred Securities (as defined in the Conditions), provided that such substitution or variation shall not result in terms that are materially less favourable to the Holders, as certified by two Authorised Signatories (as defined in the Conditions) of ABANCA and an Independent Financial Adviser

(as defined in the Conditions). In the exercise of its discretion, the Bank will have regard to the interest of the Holders as a class.

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

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

There are limited remedies available under the Preferred Securities

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

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

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

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

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

CRD IV imposes a series of requirements, many of which will be phased-in over a number of years. Although the CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator. In particular, the measurement of RWAs may change over time as a result of further international review and any implementation of the Basel Committee on Banking Supervision's December 2017 "Basel III: Finalising post-crisis reforms" proposals and, if so, it may have an adverse effect on the CET1 ratio.

Any changes in laws and regulations (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio, the CET1 Capital or the RWAs of the Bank, the ABANCA Group and/or the ABANCA Holding Group. Furthermore, because the occurrence of a 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 a 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's, the ABANCA Group's and the ABANCA Holding Group's accounting policies and the application of these policies. Any such changes, including changes over which the Bank, the ABANCA Group and the ABANCA Holding Group have a discretion, may have a material adverse impact on the Bank's, the ABANCA Group's and the ABANCA Holding Group's reported financial position and accordingly may give rise to the occurrence of

a Trigger Event in circumstances where such Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders of the Preferred Securities.

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

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

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

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

Impact of financial transaction taxes

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

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

The FTT may give rise to tax liabilities for the Bank with respect to certain transactions if it is adopted based on the Commission's proposal. Examples of such transactions are the conclusion of a derivative contract in the context of the Bank's hedging arrangements or the purchase or sale of securities. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Preferred Securities (including secondary market transactions) if conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation EC No 1287/2006 are expected to be exempted.

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

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

On 4 July 2014, Royal Decree-Law 8/2014, of 4 July was introduced in Spain setting forth a tax rate of 0.03% on bank deposits in Spain. Such tax was established in 2013 (but previously with a 0% rate) and is payable annually by Spanish banks. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank

operates. Any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition and results of operations.

Risks related to the Spanish withholding tax regime

Article 44 of Royal Decree 1065/2007, of 27 July 2007, as amended by Royal Decree 1145/2011, of 29 July 2011 ("**Royal Decree 1065/2007**") sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. The procedures apply to interest deriving from preferred securities (*participaciones preferentes*) and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

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

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

1. Identification of the Preferred Securities.
2. Total amount of the income paid by the Bank.
3. Amount of the income corresponding to individuals' residents in Spain that are PIT taxpayers.
4. Amount of the income that must be paid on a gross basis.

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

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

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

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

U.S. Foreign Account Tax Compliance Withholding

While the Preferred Securities are in book-entry form and held within Iberclear, in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") will affect the amount of any payment received by Iberclear (see "*Taxation—FATCA*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if

any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank's obligations under the Preferred Securities are discharged once it has made payment to the Holders, and the Bank has therefore no responsibility for any amount thereafter transmitted through the Iberclear and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

Risks in relation to the market

The secondary market in general

Although the Preferred Securities have been registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("**Iberclear**") as managing entity of the central registry of the Spanish clearance and settlement system (the "**Spanish Central Registry**") and application has been made for admission to listing and trading on AIAF, there is no assurance that such application will be accepted or that an active trading market will develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the ABANCA Group or the ABANCA Holding Group as provided in Condition 9. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

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

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

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

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

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

Exchange rate risks and exchange controls

Payments made by the Bank in respect of the Preferred Securities will be in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a

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

Risks relating to EURIBOR and other "benchmarks"

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

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

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

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

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

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

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

Interest rate risk

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

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

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

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

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

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

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

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

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

Legal investment considerations may restrict certain investments

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where

appropriate, whether and to what extent (i) the Preferred Securities are lawful investments for it, (ii) the Preferred Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Preferred Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Preferred Securities under any applicable risk-based capital or similar rules.

INFORMATION INCORPORATED BY REFERENCE

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

- (i) ABANCA's audited individual annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2017, prepared in accordance with Bank of Spain Circular 4/2004 (as amended), available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/cuentas-anales-individuales-2017-es.pdf>) (together, the "**2017 Individual Annual Accounts**").

The 2017 Individual Annual Accounts were published by ABANCA as a regulatory announcement (*hecho relevante*) (registry number: 264,389) on 19 April 2018, which is available at the CNMV's website.

- (ii) ABANCA's audited individual annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2016, prepared in accordance with Bank of Spain Circular 4/2004 (as amended), available at ABANCA's website (<http://www.ABANCAcorporacionbancaria.com/files/documents/cuentas-individuales-2016-es.pdf>) (together, the "**2016 Individual Annual Accounts**").

The 2016 Individual Annual Accounts were published by ABANCA as a regulatory announcement (*hecho relevante*) (registry number: 250,682) on 12 April 2017, which is available at the CNMV's website.

- (iii) ABANCA's audited individual annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2015, prepared in accordance with Bank of Spain Circular 4/2004 (as amended), available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/cuentas-individuales-2015-es.pdf>) and on the CNMV's website (<https://www.cnmv.es/AUDITA/2015/16662.pdf>) (together, the "**2015 Individual Annual Accounts**").

- (iv) ABANCA's unaudited condensed consolidated interim financial statements and the directors' report, together with the limited review report of KPMG Auditores, S.L. as of and for the six months ended 30 June 2018, available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/es-cuentas-consolidadas-1s-2018.pdf>) (together, the "**2018 Consolidated First Semester Interim Financial Statements**").

The 2018 Consolidated First Semester Interim Financial Statements were published by ABANCA as a regulatory announcement (*hecho relevante*) (registry number: 268,641) on 30 July 2018, which is available at the CNMV's website.

- (v) ABANCA Group's audited consolidated annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2017, prepared in accordance with IFRS-EU, available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/cuentas-anales-consolidadas-2017-es.pdf>) (together, the "**2017 Consolidated Annual Accounts**").

The 2017 Consolidated Annual Accounts were published by ABANCA as a regulatory announcement (*hecho relevante*) (registry number: 264,389) on 19 April 2018, which is available at the CNMV's website.

- (vi) ABANCA Group's audited consolidated annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2016, prepared in accordance with IFRS-EU, available at ABANCA's website (<http://www.ABANCAcorporacionbancaria.com/files/documents/cuentas-consolidadas-2016-es.pdf>) (together, the "**2016 Consolidated Annual Accounts**").

The 2016 Consolidated Annual Accounts were published by ABANCA as a regulatory announcement (*hecho relevante*) (registry number: 250,682) on 12 April 2017, which is available at the CNMV's website.

- (vii) ABANCA Group's audited consolidated annual accounts and the directors' report, together with the audit report of KPMG Auditores, S.L. as of and for the year ended 31 December 2015, prepared in accordance with IFRS-EU, available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/cuentas-consolidadas-2015-es.pdf>) and on the CNMV's website (<https://www.cnmv.es/AUDITA/2015/16662.pdf>) (together, the "2015 Consolidated Annual Accounts").

Each document incorporated herein by reference is only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of ABANCA or the ABANCA Group, as the case may be, since the date thereof or that the information contained therein is current as of any time subsequent to its date.

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

The 2015 Individual Annual Accounts and the 2015 Consolidated Annual Accounts have been incorporated by ABANCA on a voluntary basis as it is not a requirement under the Prospectus Regulation.

English translations

English translations of the unaudited condensed consolidated interim financial statements and the directors' report as of and for the for the six months ended 30 June 2018, together with the English translations of the limited review report thereon, of the audited individual and consolidated annual accounts and the individual and consolidated directors' reports as of and for the years ended 31 December 2017 and 31 December 2016 and of the audited individual annual accounts and the individual directors' reports as of and for the year ended 31 December 2015, together with the English translations of the auditors' reports thereon, are available at ABANCA's website (<http://www.abancacorporacionbancaria.com/files/documents/cuentas-consolidadas-1s-2018-en.pdf>, <http://www.abancacorporacionbancaria.com/files/documents/cuentas-anuales-individuales-2017-en.pdf>, <http://www.abancacorporacionbancaria.com/files/documents/cuentas-anuales-consolidadas-2017-en.pdf>, <http://www.abancacorporacionbancaria.com/files/documents/cuentas-anuales-individuales-2016-en.pdf>, <http://www.abancacorporacionbancaria.com/files/documents/cuentas-consolidadas-2016-en.pdf> and <http://www.abancacorporacionbancaria.com/files/documents/cuentas-consolidadas-2015-en.pdf>, respectively).

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

CONDITIONS OF THE PREFERRED SECURITIES

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

The Preferred Securities (as defined below) have been issued by ABANCA Corporación Bancaria, S.A. (the "**Bank**") by virtue of the resolutions passed by the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 28 May 2018 and in accordance with the First Additional Provision of Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) ("**Law 10/2014**") and the CRR (as defined below).

1 Definitions

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

"5-year Mid-Swap Rate" means, in relation to a Reset Period:

- (a) the rate of the annual swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the relevant Screen Page under the heading "EURIBOR BASIS – EUR" and above the caption "11AM FRANKFURT" as of 11.00 am (CET) on the Reset Determination Date; or
- (b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

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

- (a) has a term of five years commencing on the relevant Reset Date; and
- (b) is in a Representative Amount,

where the floating leg (calculated on an Actual/360-day count basis) is equivalent to EURIBOR 6-month or, if not available, such other benchmark, rate and/or day count fraction as is in customary market usage in the markets for such euro interest rate swap transactions at the relevant time;

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

"ABANCA Holding" means ABANCA Holding Financiero, S.A.;

"ABANCA Holding Group" means ABANCA Holding together with its consolidated Subsidiaries;

"Accounting Currency" means euro or such other primary currency used in the presentation of the accounts of the Bank, the ABANCA Group and/or the ABANCA Holding Group (as the context requires) from time to time;

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

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

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

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

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank, the ABANCA Group and/or the ABANCA Holding Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies of the Competent Authority relating to capital adequacy, resolution and/or solvency then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank, the ABANCA Group and/or the ABANCA Holding Group) (in all cases, as amended or replaced from time to time);

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

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

"**Bank's Certificate**" means a certificate signed by two Authorised Signatories of the Bank stating that, in the opinion of the Bank, (i) the changes determined pursuant to a substitution or variation of the Preferred Securities under Condition 8 will result in the Qualifying Preferred Securities having terms not materially less favourable to the Holders than the terms of the Preferred Securities on issue and (ii) the differences between the terms and conditions of the Qualifying Preferred Securities and these Conditions are only those strictly necessary to (a) 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 Applicable Banking Regulations or (b) in the case of a Tax Event, cure the relevant Tax Event;

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

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

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

- (a) the exclusion of any of the aggregate Outstanding Principal Amount of the Preferred Securities from the Additional Tier 1 Capital of the Bank, the ABANCA Group or the ABANCA Holding Group (in each case, to the extent required by Applicable Banking Regulations); or
- (b) the reclassification of any of the aggregate Outstanding Principal Amount of the Preferred Securities as a lower quality form of own funds of the Bank, the ABANCA Group or the ABANCA Holding Group, in accordance with the Applicable Banking Regulations (in each case, to the extent required by Applicable Banking Regulations);

For the avoidance of doubt, the exclusion of any Outstanding Principal Amount of the Preferred Securities from the Additional Tier 1 Capital of the ABANCA Holding Group pursuant to the rules in Title II (Minority Interest and Additional Tier 1 and Tier 2 Instruments issued by Subsidiaries) of Part Two (Own Funds) of the CRR shall not comprise a Capital Event;

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

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

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

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

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

"**Closing Date**" means 2 October 2018;

"**CNMV**" means the Spanish Securities Market 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, the ABANCA Group and/or the ABANCA Holding Group, as applicable;

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

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

"**CRD IV Implementing Measures**" means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Competent Authority, the European Banking Authority or any other relevant authority, which are applicable to the Bank, the ABANCA Group or the ABANCA Holding Group, as applicable, including, without limitation, Law 10/2014, as amended from time to time, Royal Decree 84/2015, as amended from time to time, and any other regulation, circular or guidelines implementing CRD IV;

"**CRR**" means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms, as amended or replaced from time to time;

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

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

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

"**Distribution Payment Date**" means each of 2 January, 2 April, 2 July and 2 October, in each year, with the first Distribution Payment Date falling on 2 January 2019;

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

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

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

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

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

- (a) the rate for deposits in euro for a six-month period which appears on the relevant Screen Page as of 11.00 am (CET) on the Reset Determination Date for the relevant Reset Period; or
- (b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the rates at which deposits in euros are offered by four major banks in the Eurozone interbank market, as selected by the Bank, at such time on such Reset Determination Date to prime banks in the Eurozone interbank market for a six-month period commencing on such Reset Date in a Representative Amount, with the Bank to request the principal Eurozone office of each such major bank to provide a quotation of its rate;

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

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

"**First Reset Date**" means 2 October 2023;

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

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

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

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

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

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

"**Initial Margin**" means 7.326% per annum;

"**Insolvency Law**" means Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de julio, Concursal*), as amended from time to time;

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

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

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

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

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

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

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

"Maximum Write Up Amount" means the lowest of:

- (a) the Net Income of the Bank multiplied by the amount obtained by dividing (i) the sum of the aggregate Original Principal Amount of the Preferred Securities and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the Bank and (ii) the total Tier 1 Capital of the Bank as of the Write Up Date;
- (b) the Net Income of the ABANCA Group multiplied by the amount obtained by dividing (i) the sum of the aggregate Original Principal Amount of the Preferred Securities and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the ABANCA Group and (ii) the total Tier 1 Capital of the ABANCA Group as of the Write Up Date; and
- (c) the Net Income of the ABANCA Holding Group multiplied by the amount obtained by dividing (i) the sum of the aggregate Original Principal Amount of the Preferred Securities and the aggregate initial principal amount of all Loss Absorbing Written Down Instruments of the ABANCA Holding Group and (ii) the total Tier 1 Capital of the ABANCA Holding Group as of the Write Up Date;

"Net Income" means, at any time, (i) with respect to the Bank, the non-consolidated net income (excluding minority interests) of the Bank; and (ii) with respect to the ABANCA Group or the ABANCA Holding Group, the consolidated net income (excluding minority interests) of the ABANCA Group or the ABANCA Holding Group, respectively, in each case, as calculated and set out in the most recent published audited annual accounts of the Bank, the ABANCA Group and/or the ABANCA Holding Group, as approved by the Bank or ABANCA Holding, as applicable;

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

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

provided that for each of the following purposes, namely:

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

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

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

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

"Preferred Securities" means the €250,000,000 Perpetual Non-Cumulative Additional Tier 1 Preferred Securities issued by the Bank on the Closing Date;

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

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

- (a) have terms not materially less favourable to the Holders than the terms of the Preferred Securities with any differences between their terms and conditions and these Conditions being those strictly necessary to (in the case of a Capital Event) comply with the requirements of the Competent Authority in relation to Additional Tier 1 Capital in accordance with the Applicable Banking Regulations and/or (in the case of a Tax Event) cure the relevant Tax Event (provided that the Bank shall have obtained a Bank's Certificate and an Independent Financial Adviser Certificate (copies thereof will be available at the Bank's specified office during its normal business hours) at least 15 Business Days prior to the issue or, as appropriate, variation of the relevant securities); and
- (b) subject to (a) above, shall (1) rank at least equal to the ranking of the Preferred Securities, (2) have the same currency, the same (or higher) Distribution Rates and the same Distribution Payment Dates as those from time to time applying to the Preferred Securities, (3) have the same redemption rights as the Preferred Securities; (4) comply with the then current requirements of Applicable Banking Regulations in relation to Additional Tier 1 Capital; (5) preserve any existing rights under the Preferred Securities to any accrued Distribution which has not been paid in respect of the period from (and including) the Distribution Payment Date immediately preceding the date of substitution or variation, subject to Condition 4, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Preferred Securities immediately prior to such variation or substitution, and (7) shall not at such time be subject to a Capital Event or a Tax Event; and
- (c) are (i) listed and admitted to trading on AIAF or (ii) listed on a Recognised Stock Exchange, if the Preferred Securities were listed immediately prior to such variation or substitution;

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

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

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

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

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

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

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

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

- (a) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period; or
- (b) in the case of the Reset Period commencing on the First Reset Date, 0.388% per annum;

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

"Royal Decree 84/2015" means Royal Decree 84/2015, of 13 February, implementing Law 10/2014 (*Real Decreto 84/2015, de 13 de febrero, por el que se desarrolla la Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*), as amended from time to time;

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

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

- (a) in the case of the 5-year Mid-Swap Rate, the "ICE SWAP/ISDAFIX2" page; or
- (b) in the case of EURIBOR 6-month, the "EURIBOR01" page;

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

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

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

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

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

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

- (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced; or
- (b) the Bank being obliged to pay additional amounts pursuant to Condition 12 below; or
- (c) the applicable tax treatment of the Preferred Securities being materially affected,

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

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

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

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

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

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

- (ii) the amount necessary to reduce the Outstanding Principal Amount of each Preferred Security to one cent (€0.01).

The Outstanding Principal Amount of a Preferred Security shall not at any time be reduced below one cent (€0.01) as a result of a Write Down;

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

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

- (i) that a Trigger Event has occurred;
- (ii) the Write Down Date; and
- (iii) if then determined, the principal amount (expressed per Original Principal Amount or as a percentage) by which each Preferred Security will be Written Down on the Write Down Date.

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

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

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

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

2 **Form, Denomination and Title**

- 2.1 The Preferred Securities have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate nominal amount of €250,000,000 and Original Principal Amount of €200,000.

- 2.2 The Preferred Securities have been registered with Iberclear as managing entity of the central registry of the Spanish clearance and settlement system (the "**Spanish Central Registry**"). Holders of a beneficial interest in the Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream Luxembourg**") with Iberclear.

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

The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following International Securities Identification Number (ISIN) to identify the Preferred Securities: ES0865936001. The Common Code for this issue is 188745318.

- 2.3 Title to the Preferred Securities is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Preferred Securities

recorded therein. In these Conditions, the "Holder" means the person in whose name such Preferred Securities is for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book (or, in the case of a joint holding, the first named thereof) and Holder shall be construed accordingly.

One or more certificates (each a "**Certificate**") attesting to the relevant Holder's holding of Preferred Securities in the relevant registry will be delivered by the relevant Iberclear Member or by Iberclear (in each case, in accordance with the requirements of Spanish law and the relevant Iberclear Member's or, as the case may be, Iberclear's procedures) to such Holder upon such Holder's request.

The Preferred Securities have been issued without any restrictions on their transferability. Consequently, the Preferred Securities may be transferred and title to the Preferred Securities may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable. Each Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant Preferred Securities for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest, or any writing on, or the theft or loss of, the Certificate issued in respect of it), and no person will be liable for so treating the Holder.

3 Status of the Preferred Securities

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

- (a) *pari passu* among themselves and with:
 - (i) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2° of the Insolvency Law qualifying as Additional Tier 1 Instruments; and
 - (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank's obligations under the Preferred Securities;
- (b) junior to:
 - (i) any claims for principal in respect of unsubordinated obligations of the Bank;
 - (ii) any subordinated obligations (*créditos subordinados*) of the Bank under Article 92.1° of the Insolvency Law;
 - (iii) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2° of the Insolvency Law not qualifying as Additional Tier 1 Instruments; and

- (iv) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank senior to the Bank's obligations under the Preferred Securities; and
- (c) senior to:
 - (i) any claims for the liquidation amount of the ordinary shares of the Bank; and
 - (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by their terms, to the extent permitted by Spanish law, rank junior to the Bank's obligations under the Preferred Securities.

4 Distributions

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

- (a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7.5% per annum; and
- (b) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 4.3 and 4.4, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date (other than as a result of the postponement of such payment as a result of the operation of Condition 4.2), it shall be calculated by the Bank by applying the Distribution Rate to the Outstanding Principal Amount in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the "**Accrual Date**") to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

4.2 Subject to any applicable fiscal or other laws and regulations, the payment of Distributions on the Preferred Securities will be made in euros by the Bank on the relevant Distribution Payment Date by transfer to an account capable of receiving euro payments, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at close of business on the day immediately preceding the date on which the payment of Distributions falls due. Holders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant Preferred Securities. The Bank will have no responsibility or liability for the records relating to payments made in respect of the Preferred Securities.

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

- 4.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution (including any additional amounts pursuant to Condition 12) in whole or in part at any time that it deems necessary or desirable and for any reason.
- 4.4 Without prejudice to the right of the Bank to cancel the payments of any Distribution under Condition 4.3 above:
- (a) payments of Distributions (including any additional amounts pursuant to Condition 12) in any financial year of the Bank shall be made only to the extent the Bank has sufficient Distributable Items. To the extent that the Bank has insufficient Distributable Items to make Distributions (including any additional amounts pursuant to Condition 12) on the Preferred Securities scheduled for payment in the then current financial year and any interest payments, distributions or other payments on own funds items that have been paid or made or are scheduled or required to be paid out of or conditional to sufficient Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank or which are not required to be made conditional upon Distributable Items, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.
 - (b) If the Competent Authority, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a relevant Distribution (including any additional amounts pursuant to Condition 12) in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities.
 - (c) The Bank may make partial or, as the case may be, no payment of the relevant Distribution (including any additional amounts pursuant to Condition 12) on the Preferred Securities if and to the extent that payment of any Distribution (including any additional amounts pursuant to Condition 12) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV, which will include Article 48 of Law 10/2014 and any of its development provisions), the Maximum Distributable Amount to be exceeded or otherwise would cause any other breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations.
 - (d) If a Trigger Event occurs at any time on or after the Closing Date, any accrued and unpaid Distributions up to (but excluding) the corresponding Write Down Date (whether or not such distributions have become due for payment) shall be automatically cancelled in accordance with Condition 6.1(a)(iii).
- 4.5 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 4.3 above or the limitations on payment set out in Condition 4.4 above and Condition 6.1(a)(iii) below then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

- 4.6 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 4.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 4.4 above and Condition 6.1(a)(iii) below will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with 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 13 of any election under Condition 4.3 and of any limitation set out in Condition 4.4 occurring or applying and for avoidance of doubt, failure to deliver such notice shall not affect the validity of the cancellation.
- 4.7 The Bank will at, or as soon as practicable after, the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Bank will cause the Distribution Rate for each Reset Period to be notified to any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof is to be published in accordance with Condition 13 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.
- 4.8 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on all Holders

5 **Liquidation Distribution**

- 5.1 Subject as provided in Condition 5.2 below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities will confer an entitlement to receive, out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares of the Bank or any other instrument of the Bank ranking junior to the Preferred Securities.
- 5.2 If, before such liquidation or winding-up of the Bank described in Condition 5.1, a Trigger Event occurs but the relevant reduction of the Outstanding Principal Amount pursuant to Condition 6.2 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 5.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such reduction had taken place immediately prior to such liquidation or winding-up.
- 5.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 5.1 and 5.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

6 Loss Absorption following a Trigger Event and Write Up of the Preferred Securities

6.1 Loss Absorption following a Trigger Event

- (a) If a Trigger Event occurs at any time on or after the Closing Date, then the Bank will:
- (i) immediately notify the Competent Authority that a Trigger Event has occurred;
 - (ii) as soon as reasonably practicable deliver a Write Down Notice to Holders in accordance with Condition 13 and file a relevant event announcement (*hecho relevante*) with the CNMV;
 - (iii) cancel any accrued and unpaid Distributions up to (but excluding) the Write Down Date in accordance with Condition 4.4 above; and
 - (iv) irrevocably and mandatorily (and without the need for the consent of the Holders) without delay, and by no later than one month from the occurrence of the relevant Trigger Event, reduce the then Outstanding Principal Amount of each Preferred Security by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

Any failure or delay by the Bank in giving the Write Down Notice to the Holders or the notification to the Competent Authority under Condition 6.1(a)(i) will not in any way impact on the effectiveness of, or otherwise invalidate, any Write Down, or give Holders any rights as a result of such failure or delay, and shall not constitute a default by the Bank under the Preferred Securities or for any purpose.

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

Holders shall have no claim against the Bank in respect of the Outstanding Principal Amount of the Preferred Securities reduced as described above or any accrued and unpaid Distributions cancelled, in each case pursuant to the operation of the loss absorption provisions following a Trigger Event as described above.

- (b) Write Down of the Preferred Securities will be effected, save as may otherwise be required by the Competent Authority, pro rata with (a) the concurrent Write Down of the other Preferred Securities; and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), provided that:
- (i) with respect to each Loss Absorbing Instrument (if any), such pro rata write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 ratio(s) to the lower of (a) such Loss Absorbing Instrument's trigger level and (b) 5.125% (being the level at which a Trigger Event occurs in respect of the Preferred Securities); and
 - (ii) if for any reason the Bank is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Preferred Securities

will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Bank is unable to write down or convert any Loss Absorbing Instruments as aforesaid, the Write Down Amount determined in accordance with part (i) of the definition of "Write Down Amount" will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

- (c) If, in connection with the Write Down or the calculation of the Write Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down or converted into equity in full and not in part only ("**Full Loss Absorbing Instruments**") then:
- (i) the requirement that a Write Down of the Preferred Securities shall be effected pro rata with the write down or conversion into equity, as the case may be, of any such Loss Absorbing Instruments shall not be construed as requiring the Preferred Securities to be Written Down in full (or in full save for one cent (€0.01)) simply by virtue of the fact that such Full Loss Absorbing Instruments will be written down or converted in full; and
 - (ii) for the purposes of calculating the Write Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write down of principal or conversion into equity, as the case may be, among the Preferred Securities and such other Loss Absorbing Instruments on a pro rata basis) as if their terms permitted partial write down or conversion into equity, such that the write down or conversion into equity of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written down or converted into equity pro rata with the Preferred Securities and all other Loss Absorbing Instruments (in each case subject to and as provided in Condition 6.1(b)) to the extent necessary to restore the relevant CET1 ratio(s) to at least 5.125%; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-off or converted into equity, as the case may be, with the effect of increasing the applicable CET1 ratio above the minimum required level under (a) above.
- (d) Following a reduction of the Outstanding Principal Amount of the Preferred Securities as described above, Distributions will accrue on the reduced Outstanding Principal Amount of each Preferred Security from (and including) the relevant Write Down Date, and (for the avoidance of doubt) such Distributions will be subject to Condition 4 and Condition 6.1(a).
- (e) A Write Down may occur on one or more occasions and accordingly the Preferred Securities may be Written Down on one or more occasions (provided however, for the avoidance of doubt, that the principal amount of a Preferred Security shall not at any time be reduced to below one cent (€0.01)). Any reduction of the Outstanding Principal Amount pursuant to Condition 6.1(a) shall not constitute a default by the Bank under the Preferred Securities or for any purpose and shall not entitle Holders to petition for the liquidation, dissolution or winding-up of the Bank.

Any Write Down pursuant to this Condition 6.1 shall not in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

- (f) If the Outstanding Principal Amount of the Preferred Securities is Written Down to one cent (€0.01), the Preferred Securities will not be automatically cancelled.
- (g) For the purposes of any calculation in connection with a Write Down or Write Up of the Preferred Securities which necessarily requires the determination of a figure in the Accounting Currency (or in an otherwise consistent manner across obligations denominated in different currencies), including (without limitation) any determination of a Write Down Amount and/or a Maximum Write Up Amount, any relevant obligations (including the Preferred Securities) which are not denominated in the Accounting Currency shall, (for the purposes of such calculation only) be deemed notionally to be converted into the Accounting Currency at the foreign exchange rates determined, in the sole discretion of the Bank, to be applicable based on its regulatory reporting requirements under the Applicable Banking Regulations.
- (h) The Bank will conduct the relevant arrangements with Iberclear on or before the Write Down Date to complete the corresponding reduction of the Outstanding Principal Amount of the Preferred Securities.

6.2 Write Up of the Preferred Securities

- (a) Subject to compliance with the prevailing Applicable Banking Regulation, if, following a Write Down in accordance with Condition 6.1, each of the Bank, the ABANCA Group and the ABANCA Holding Group, records a positive Net Income at any time while the Outstanding Principal Amount of the Preferred Securities is less than their Original Principal Amount, the Bank may, at its full discretion, increase the Outstanding Principal Amount of each Preferred Security (such increase, a "**Write Up**") by such amount (calculated per Original Principal Amount) as the Bank may elect, provided that such Write Up shall not:
 - (i) result in the Outstanding Principal Amount of the Preferred Securities being greater than their Original Principal Amount;
 - (ii) be operated whilst a Trigger Event has occurred and is continuing;
 - (iii) result in the occurrence of a Trigger Event; or
 - (iv) result in the Maximum Write Up Amount to be exceeded when taken together with the aggregate of:
 - (a) any previous Write Up of the Preferred Securities out of the same Net Income since the end of the then previous financial year;
 - (b) the aggregate amount of any Distribution payments on the Preferred Securities that were paid or calculated (but disregarding any Distributions cancelled) on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount at any time after the end of the then previous financial year;
 - (c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same

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

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

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

- (b) In the event of a Write Up in accordance with Condition 6.2(a), the Bank will give notice to Holders in accordance with Condition 13 not more than 10 Business Days following the day on which it resolves to effect such Write Up, which notice shall specify the amount of such Write Up (expressed per Original Principal Amount or as a percentage) and the Write Up Date.
- (c) Any Write Up shall be applied concurrently (or substantially concurrently) and pro rata with other write ups to be effected out of the Net Income in respect of any Loss Absorbing Written Down Instruments.
- (d) Following a Write Up in respect of the Preferred Securities, Distributions will accrue on the increased Outstanding Principal Amount of each Preferred Security from (and including) the Write Up Date, and (for the avoidance of doubt) such Distributions will be subject to Condition 4 and Condition 6.1(a).
- (e) A Write Up may occur on one or more occasions until the Outstanding Principal Amount of the Preferred Securities has been reinstated to the Original Principal Amount. Any decision by the Bank to effect or not to effect any Write Up on any occasion shall not preclude it from effecting or not effecting any Write Up on any other occasion.

The decision of the Bank to Write Up or not the Preferred Securities will not limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital) or in respect of any other instrument issued by ABANCA ranking by law or by its terms, to the extent permitted by law, *pari passu* with the Preferred Securities.

- (f) A Write Up shall be operated at the sole and absolute discretion of the Bank and there shall be no obligation for the Bank to operate or accelerate a Write Up in any circumstance.
- (g) The Bank will conduct the relevant arrangement with Iberclear on or before the Write Up Date to complete the corresponding Write Up of the Outstanding Principal Amount of the Preferred Securities.

7 Optional Redemption

- 7.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 7.

- 7.2 Subject to Conditions 7.3 and 7.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price, subject to the prior consent of the Competent Authority (and/or otherwise in accordance with Applicable Banking Regulations then in force).

As of the Closing Date, Article 78(1) of the CRR provides that the Competent Authority will give its consent to a redemption of the Preferred Securities in such circumstances provided that either of the following conditions is met:

- (a) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or
- (b) the Bank has demonstrated to the satisfaction of the Competent Authority that its own funds would, following such redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV Directive by a margin that the Competent Authority may consider necessary on the basis of Article 104(3) of the CRD IV Directive.

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

As of the Closing Date, Article 78(4) of the CRR provides that the Competent Authority may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, the Bank demonstrates to the satisfaction of the Competent Authority that the regulatory reclassification was not reasonably foreseeable at the Closing Date.

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

As of the Closing Date, Article 78(4) of the CRR provides that the Competent Authority may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Tax Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR, the Bank demonstrates to the satisfaction of the Competent Authority that such Tax Event is material and was not reasonably foreseeable at the Closing Date

- 7.5 The decision to redeem the Preferred Securities must be, subject to Condition 7.7 below, irrevocably notified by the Bank to the Holders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a relevant event announcement (*hecho relevante*) with the CNMV and in accordance with Condition 13.

The Bank will not give notice under this Condition 7.5 unless, at least 15 days prior to the publication of any notice of redemption, it will make available to the Holders at its registered office, a certificate signed by two of its duly authorised officers stating that a Capital Event or a Tax Event has occurred, or there is sufficient certainty that it will occur, as the case may be.

- 7.6 If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:
- (a) Distributions on the Preferred Securities shall cease;
 - (b) such Preferred Securities will no longer be considered outstanding; and
 - (c) the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.
- 7.7 The Bank may not give a notice of redemption pursuant to this Condition 7 if a Trigger Event notice has been given. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, a Write Down of the principal amount of the Preferred Securities will occur as provided under Condition 6.1. The Bank shall give notice of any such automatic rescission of a redemption notice to the Holders in accordance with Condition 13 as soon as possible thereafter.
- 7.8 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue in accordance with Condition 4 above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.
- 7.9 The Bank shall not be entitled to redeem the Preferred Securities pursuant to Condition 7.2 (but this restriction shall not, for the avoidance of doubt, apply to a redemption pursuant to Conditions 7.3 and 7.4) if, on the relevant redemption date, the Outstanding Principal Amount of the Preferred Securities is lower than their Original Principal Amount as a result of a Write Down until any principal amount by which the Preferred Securities have been Written Down pursuant to Condition 6.1 have first been reinstated in full pursuant to Condition 6.2 (and any notice of redemption which have been given in such circumstances shall be automatically rescinded and shall be of no force and effect).

8 Substitution and Variation

- 8.1 Subject to the prior consent of the Competent Authority (and/or otherwise in accordance with the Applicable Banking Regulations then in force) and having given no less than 30 nor more than 60 calendar days' notice to the Holders (in accordance with Condition 13), if a Capital Event or Tax Event has occurred and is continuing, the Bank may substitute all (but not some only) of the Preferred Securities or vary the terms of all (but not some only) of the Preferred Securities, without the consent of the Holders, so that they become or remain Qualifying Preferred Securities. Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the Preferred Securities. Such substitution or variation will be effected without any cost or charge to the Holders.
- 8.2 The Bank will not give a notice of substitution or variation after a Trigger Event notice has been given. If the Bank has given a notice of substitution or variation in accordance with these Conditions but prior to such substitution or variation a Trigger Event is effective, the relevant substitution or variation notice shall be automatically rescinded and shall be of no force and effect. The Bank shall give notice thereof to the Holders in accordance with Condition 13 as soon as possible following any such automatic rescission of a substitution or variation notice.

9 **Purchases of Preferred Securities**

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

As of the Closing Date, Article 29(3)(b) of the Commission Delegated Regulation (EU) No 241/2014, of 7 January 2014, provides that, in the case of repurchases for market making purposes, the Competent Authority may only permit the Bank to purchase the Preferred Securities provided that the total Outstanding Principal Amount of the Preferred Securities so purchased does not exceed the lower of (i) 10% of the aggregate Outstanding Principal Amount of the Preferred Securities, and (ii) 3% of the total amount of all the outstanding Additional Tier 1 Instruments of the Bank.

Any Preferred Securities so acquired by the Bank or any member of the ABANCA Group or the ABANCA Holding Group may (subject to the approval of the Competent Authority and in accordance with Applicable Banking Regulations then in place) be held, resold or, at the option of the Bank or such member of the ABANCA Group or the ABANCA Holding Group, cancelled.

10 **Waiver of Set-off**

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

For the avoidance of doubt, nothing in this Condition 10 is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Holder of any Preferred Security but for this Condition 10.

11 **Meetings of Holders**

11.1 Convening meetings

The Bank may, at any time, and shall, if required in writing by Holders holding not less than 10% in aggregate Outstanding Principal Amount of the Preferred Securities for the time being outstanding, convene a meeting of the Holders and if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders.

11.2 Procedures for convening meetings

- (a) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 13. The notice, which shall be in the English language, shall state generally the nature of the business to be

transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either:

- (i) specify the terms of the Extraordinary Resolution to be proposed; or
- (ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Bank or an agent thereof, provided that, in the case of this (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid.

The notice shall:

- (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting; or
- (ii) inform Holders that details of the voting arrangements are available free of charge from the Bank or an agent thereof, provided that, in the case of this (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid.

A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

- (b) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 11.2(a) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

11.3 Chairman

The person (who may but need not be a Holder) nominated in writing by the Bank (the "**Chairman**") shall be entitled to take the chair at each meeting but if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting, the Holders present shall choose one of their number to be Chairman, failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

11.4 Quorums

(a) Regular Quorum

At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5% in Outstanding Principal Amount of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business, and no business (other than the choosing of a Chairman in accordance with Condition 11.3) shall be transacted at any meeting unless the required quorum is present at the commencement of business.

(b) Extraordinary Quorum

The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50% in Outstanding Principal Amount of the Preferred Securities for the time being outstanding.

(c) Enhanced Quorum

At any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

- (i) a reduction or cancellation of the Outstanding Principal Amount of the Preferred Securities (other than by virtue of a Write Down); or
- (ii) without prejudice to the provisions of Condition 4 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or
- (iii) a modification of the currency in which payments under the Preferred Securities are to be made; or
- (iv) a modification of the majority required to pass an Extraordinary Resolution; or
- (v) the sanctioning of any scheme or proposal described in Condition 11.8(b)(vi) below; or
- (vi) alteration of this proviso or the proviso to Condition 11.5(a) below,

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

11.5 Adjourned Meeting

- (a) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 11.1, be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is not a Business Day the next following Business Day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Bank). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Bank, and the provisions of this sentence shall apply to all further adjourned meetings.
- (b) At any adjourned meeting one or more Eligible Persons present (whatever the Outstanding Principal Amount of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to

decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 11.4(c) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Outstanding Principal Amount of the Preferred Securities for the time being outstanding.

11.6 Right to attend and vote

- (a) The provisions governing the manner in which Holders may attend and vote at a meeting of the holders of Preferred Securities must be notified to Holders in accordance with Condition 13 and/or at the time of service of any notice convening a meeting.
- (b) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the definition of "outstanding", no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.
- (c) Subject as provided in Condition 11.6(b), at any meeting:
 - (i) on a show of hands every Eligible Person present shall have one vote; and
 - (ii) on a poll every Eligible Person present shall have one vote in respect of each Preferred Security.

11.7 Holding of meetings

- (a) Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.
- (b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Outstanding Principal Amount of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.
- (c) Subject to Condition 11.7(e), if at any meeting a poll is demanded, it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as of the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.
- (d) The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business, which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

- (e) Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.

11.8 Approval of the resolutions

- (a) Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 13 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

- (b) The expression "Extraordinary Resolution" when used in this Condition 11 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11 by a majority consisting of not less than 75% 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% of the votes given on the poll.

A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 11.4(b) and 11.4(c)), namely:

- (i) power to approve any compromise or arrangement proposed to be made between the Bank and the Holders;
 - (ii) power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under these Conditions or the Preferred Securities or otherwise;
 - (iii) power to agree to any modification of the provisions contained in these Conditions or the Preferred Securities, including, in particular, any provision relating to the Write Down and Write Up of the Preferred Securities, which is proposed by the Bank;
 - (iv) power to give any authority or approval which under the provisions of this Condition 11 or the Preferred Securities is required to be given by Extraordinary Resolution;
 - (v) power to appoint any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;
 - (vi) power to agree with the Bank or any substitute, the substitution of any entity in place of the Bank (or any substitute) as the principal debtor in respect of the Preferred Securities.
- (c) Subject to Condition 11.8(a), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 11, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

11.9 Miscellaneous

- (a) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had transpired shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had transpired at the meeting to have been duly passed or had.
- (b) For the purposes of calculating a period of clear days, no account shall be taken of the day on which a period commences or the day on which a period ends.
- (c) Any modification or waiver of the Conditions in accordance with this Condition 11 will be effected in accordance with the Applicable Banking Regulations and conditional upon any prior approval from the Competent Authority, to the extent required thereunder.

12 Taxation

- 12.1 All payments of Distributions and other amounts payable (excluding, for the avoidance of doubt, any repayment of principal) in respect of the Preferred Securities by or on behalf of the Bank will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax in respect of payments of Distributions (but not any Outstanding Principal Amount or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.
- 12.2 The Bank shall not be required to pay any additional amounts in relation to any payment in respect of Preferred Securities:
 - (a) presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than:
 - (i) the mere holding of Preferred Securities; or
 - (ii) the receipt of any payment in respect of Preferred Securities;
 - (b) where taxes are imposed by the Kingdom of Spain (or any political subdivision thereof or any authority or agency therein or thereof having power to tax) that are (i) any estate, inheritance, gift, sales, transfer, personal property or similar taxes or (ii) solely due to the appointment by any Holder, or any person through which such Holder holds such Preferred Security, of a custodian, collection agent, person or entity acting on its behalf or similar person in relation to such Preferred Security; or
 - (c) to, or to a third party on behalf of, a Holder who is an individual resident for tax purposes in Spain (or any political subdivision or any authority thereof or therein having power to tax); or

- (d) to, or to a third party on behalf of, a Holder in respect of whose Preferred Securities the Bank (or an agent acting on behalf of the Bank) has not received such information it may be required in order to comply with Spanish tax reporting requirements, as may be necessary to allow payments on such Preferred Securities to be made free and clear of withholding tax or deduction on account of any taxes imposed by Spain, including when the Bank (or an agent acting on behalf of the Bank) does not receive a duly executed and completed certificate, pursuant to Law 10/2014 and Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July, and any implementing legislation or regulation.

Notwithstanding any other provision of these Conditions, any amounts to be paid by the Bank on the Preferred Securities will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof ("**FATCA**") or any law implementing an intergovernmental approach to FATCA.

For the purposes of this Condition 12, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due, and is available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 13 below.

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

13 Notices

The Bank shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed and/or admitted to trading.

So long as the Preferred Securities are listed on AIAF, to the extent required by the applicable regulations, the Bank shall ensure that (i) the communication of all notices will be made public to the market through a relevant event announcement (*hecho relevante*) to be filed with the CNMV and to be published at the CNMV's official website at www.cnmv.es and (ii) all notices to the Holders will be published in the official bulletin of AIAF (*Boletín de Cotización de AIAF*).

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Bank may approve.

In addition, so long as the Preferred Securities are represented by book-entries in Iberclear, all notices to Holders shall be made through Iberclear for on transmission to their respective accountholders.

14 Prescription

To the extent that Article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will be extinguished unless such claims are duly made within three years of the relevant payment date.

15 **Governing Law and Jurisdiction**

- 15.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
- 15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law, nothing contained in this Condition 15 shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

The net proceeds of the issue of the Preferred Securities will be used by ABANCA for general corporate purposes.

DESCRIPTION OF ABANCA

History and development

ABANCA, whose corporate name is "ABANCA Corporación Bancaria, S.A." is a Spanish bank which conducts its business under the commercial name "ABANCA". The ABANCA Group operates under the "ABANCA" commercial name. ABANCA was registered at the Commercial Registry of A Coruña on 14 September 2011, in tome 3.426 of the General Section, *folio 1 et seq*, sheet C-47.803, entry 1. In addition, ABANCA was registered on 16 September 2011 in the Special Registry of Banks and Bankers of the Bank of Spain, under code number 2080. ABANCA has its corporate address at Calle Cantón Claudino Pita, no. 2, Betanzos 15300 A Coruña, Spain, its fiscal identification number (NIF) is A-70302039 and its legal entity identifier (LEI code) is 54930056IRBXXK0Q1FP96. The telephone number of its registered address is (+34) 981 18 70 00.

ABANCA is a Spanish credit institution, in the form of a public limited company (*sociedad anónima*), subject to Spanish law and, as such, governed by the legal regime established in the restated text of the Spanish Companies Law approved by Royal Legislative Decree 1/2010, of 2 July (the "**LSC**"). Moreover, in its capacity as a credit institution, ABANCA is subject to the supervision of the ECB and the Bank of Spain and the specific rules and regulations on credit institutions, mainly, Law 10/2014 and other supplementary and concordant legislation.

ABANCA was incorporated on 14 September 2011 under the name NCG Banco, S.A., which was subsequently modified on 1 December 2014 to the current name, ABANCA Corporación Bancaria, S.A. According to Article 4 of its bylaws, ABANCA was incorporated for an indefinite period.

Ownership

ABANCA Holding, whose corporate name is ABANCA Holding Financiero, S.A., holds 86.79% of the Bank.

ABANCA Holding's corporate purpose is the management and administration of equity representing securities in both Spanish resident and non-Spanish resident companies, through the appropriate organisation of material and human resources.

ABANCA Holding is the parent company of the ABANCA Holding Group, a consolidated group of subsidiaries and associated companies. The ABANCA Holding Group's subsidiary ABANCA is the company that contributes the bulk of the consolidated assets to the ABANCA Holding Group's balance sheet (at 31 December 2017 ABANCA and its subsidiaries contributed 99.98% of the total consolidated assets of the ABANCA Holding Group).

ABANCA Holding is a Financial Holding Company ("**FHC**") within the meaning of Article 4 of CRR. ABANCA Holding's status of parent FHC for the purposes of CRR determines the ABANCA Holding Group's prudential consolidation and supervision on a consolidated basis. To these purposes, a FHC is a financial institution, the subsidiaries of which are exclusively or mainly institutions or financial institutions, at least one of such subsidiaries being an institution that is not a mixed financial holding company.

As of the date of this Prospectus, ABANCA Holding's share capital is 89.59% owned by Mr. Juan Carlos Escotet Rodríguez.

History

The following is a timeline of the most important events in ABANCA's history:

- In December 2013, the FROB Steering Committee agreed to allocate 88.33% of the Bank's share capital to the present-day ABANCA Holding. The bid for this allocation amounted to €1,003 million, of which 40% was paid when the operation was formalised, and the remaining 60% was to be paid in successive instalments until 2018.

- On 25 June 2014, after having complied with all legal requirements and having obtained the necessary approval from the competent authorities, the transfer of the shares that the FROB and the Deposit Guarantee Fund held in the Bank (which represented a 88.33% of the share capital of the Bank) to ABANCA Holding was completed. This way, ABANCA and its subsidiaries became part of the ABANCA Holding Group as from the effective date of acquisition of the shares. ABANCA is the company contributing the bulk of the consolidated assets to the ABANCA Holding Group's balance sheet.
- Also in June 2014, the European Commission approved the amendment to the Bank's restructuring plan and the application of a new term sheet to replace a previous one. The new term sheet foresaw the merger of the Bank with Banco Etcheverría, S.A. ("**Banco Etcheverría**"), which was owned by ABANCA Holding, and substantially amended the restrictions that the previous term sheet placed upon it from November 2012 to June 2014.
- In August 2014, the boards of directors of the Bank and Banco Etcheverría approved the merger by absorption between Banco Etcheverría (absorbed company) and the Bank (absorbing company). The merger was registered with the Commercial Registry in November 2014.
- In December 2014, the General Shareholders' Meeting of the Bank's agreed to amend the Bank's name, thus becoming ABANCA Corporación Bancaria, S.A.
- On 31 December 2016, the term sheet's application period ended.
- In February 2017, ABANCA Holding paid the final outstanding amounts of the sale price of the 88.33% of ABANCA's share capital.
- In May 2017, ABANCA purchased all shares in Popular Servicios Financieros, E.F.C., S.A.U. from Banco Popular Español, S.A., for a total amount of €39.3 million.
- On 27 March 2018 ABANCA communicated that it had been selected as the acquirer in the sale process of Deutsche Bank AG's private and commercial client banking unit in Portugal. PCC is a business unit specialised in retail and private banking services (specially focused on personal and private banking). PCC consists of 41 commercial offices in Portugal (27 of which are in Lisbon and Porto). As of 31 December 2017, PCC had a gross credit portfolio of €2,400 million, deposits for an amount of €1,000 million and €3,100 million off-balance sheet, figures that raised its business turnover up to €6,500 million. The expected contribution of PCC in terms of net fees and commissions would have been an increase of 19.6% over the ABANCA consolidated net fees and commissions as of 31 December 2017. This transaction is expected to be completed during the first semester of 2019.

2018-2020 Strategic Initiatives

The ABANCA Group has revised a new strategic plan for 2018 through to 2020, which is based on three main lines of action: transforming the organisation, customer experience and recurring profitability levels above cost of capital.

Transforming the organisation aims to achieve a more flexible, simple and cooperative organisation, an efficient digitalisation (including both internal process and customer relations), a more innovative culture and an organic and inorganic growth above market average.

Customer experience is intended to bring a multi-channel relation with clients and an homogenous client experience, with high standards, improved client knowledge (through strengthened data bases and analytics capable of further collaborating in profit generation) and the enhancement of the added value offered to clients. This line of action is also based on the so-called "fintech alliance" (i.e., working together with "fintech" companies in order to keep innovating and increase the ABANCA Group's experience in this area so that new business opportunities in this new area can be identified).

The recurring profitability level above cost of capital is intended to be achieved through the development of the insurance business, a focus on the consumer, corporate and SMEs segments; an optimised use of capital (by improving capital allocation and using the Risk-Adjusted Return on Capital (RAROC) and the Internal ratings-based approach (IRB) models) and a reinforced position in highly profitable markets.

Business overview

ABANCA is a private credit and savings institution, whose corporate purpose is to carry out a range of activities, transactions and services pertaining to the banking business in general whether directly or indirectly related to it, and which are permitted by the legislation in force, including the provision of investment services and other ancillary services and the implementation of insurance mediation activities, as well as the acquisition, possession, enjoyment and sale of all kinds of negotiable securities.

ABANCA prepares its accounting information differentiated by business line pursuant to the provisions of IFRS 8. The business lines on the basis of which the information is presented are as follows:

- A. *Retail Banking*: this business line constitutes the main focus of the activity of ABANCA and is aimed at a variety of retail customers (individuals, businesses and public administrations), who are provided with a range of financial and para-financial products.
- B. *Wholesale Banking*: market activity (treasury, issues, fixed income portfolio, etc.) and management of the equity portfolio in which ABANCA has non-significant shareholdings.
- C. *Non-Financial Subsidiaries*: portfolio of non-financial companies created with the idea of supporting the local manufacturing industries and the activities of ABANCA.

The following tables include a breakdown of the consolidated result before tax of the business lines of the ABANCA Group corresponding to the financial years 2017 and 2016 and to the six-month periods ended 30 June 2018 and 2017.

Financial year 2017

SEGMENTATION 2017 (in accordance with IFRS-EU)	Retail Banking	Wholesale Banking	Non- financial subsidiaries	Total
	(€ million)			
Net interest income	503.19	(48.37)	33.68	488.50
Dividend income	-	10.71	-	10.71
Share of profit or loss of equity-accounted investees	-	-	7.42	7.42
Fee and commission income and expense	169.76	-	-	169.76
Gains or losses on financial assets and liabilities	-	197.00	5.17	202.17
Exchange differences, net	-	2.39	(0.04)	2.35
Other operating income and expenses	(111.18)	3.63	37.80	(69.75)
Gross margin	561.77	165.36	84.02	811.15
Personnel expenses	(286.87)	(13.03)	(15.10)	(315.00)
Other administrative expenses, depreciation and amortisation	(182.39)	(25.28)	(35.93)	(243.60)
Provisions or reversal of provisions and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	57.75	(3.42)	(0.45)	53.88
Net Operating Income	150.25	123.64	32.55	306.44
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	-	0.29	(1.44)	(1.15)
Gains/losses on derecognition of non-financial assets and investments, net	12.81	15.31	(3.37)	24.75
Negative goodwill recognised in profit or loss	-	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	41.68	(3.55)	-	38.13
Profit before tax from continuing operations	204.74	135.68	27.74	368.16

Financial year 2016

SEGMENTATION 2016 (in accordance with IFRS-EU)	Retail Banking	Wholesale Banking	Non- financial subsidiaries	Total
	(€ million)			
Net interest income	446.54	(73.18)	34.56	407.92
Dividend income	-	19.60	-	19.60
Share of profit or loss of equity-accounted investees	-	-	6.41	6.41
Fee and commission income and expense	151.60	0.22	-	151.82
Gains or losses on financial assets and liabilities	0.86	91.90	-	92.77
Exchange differences, net	1.52	7.35	-	8.87
Other operating income and expenses	(45.07)	(18.31)	31.03	(32.36)
Gross margin	555.45	27.58	72.01	655.04
Personnel expenses	(260.96)	(10.75)	(15.29)	(286.99)
Other administrative expenses, depreciation and amortisation	(177.33)	(21.38)	(33.42)	(232.13)
Provisions or reversal of provisions and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	118.18	35.12	0.71	154.01
Net Operating Income	235.36	30.57	24.01	289.93
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	-	(9.58)	0.12	(9.46)
Gains/losses on derecognition of non-financial assets and investments, net	80.98	21.97	(1.33)	101.63
Negative goodwill recognised in profit or loss	-	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	26.27	(49.59)	-	(23.32)
Profit before tax from continuing operations	342.61	(6.63)	22.80	358.78

Six-month period ended 30 June 2018

SEGMENTATION 1H-2018 (in accordance with IFRS-EU)	Retail Banking	Wholesale Banking	Non- financial subsidiaries	Total
	(€ million)			
Net interest income	255.16	(13.84)	16.45	257.77
Dividend income	-	8.64	-	8.64
Share of profit or loss of equity-accounted investees	-	-	4.98	4.98
Fee and commission income and expense	88.18	-	-	88.18
Gains or losses on financial assets and liabilities	0.00	107.95	0.10	108.06
Exchange differences, net	-	1.81	-	1.81
Other operating income and expenses	(10.01)	3.27	20.56	13.82
Gross income	333.33	107.83	42.09	483.25
Personnel expenses	(140.93)	(6.94)	(6.01)	(153.88)
Other administrative expenses, depreciation and amortisation	(91.67)	(13.19)	(18.73)	(123.58)
Provisions or reversal of provisions, and Impairment or reversal of impairment on, and gains and losses arising from changes in cash flows from financial assets not measured at fair value through profit or loss and net gains or losses arising from changes	4.23	(1.73)	(0.23)	2.28
Net Operating Income	104.97	85.98	17.13	208.07
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	(0.13)	(0.43)	0.77	0.22
Gains/(losses) on derecognition of non-financial assets, net	15.87	0.08	(0.28)	15.67
Negative goodwill recognised in profit or loss	-	-	-	-
Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	23.04	0.29	0.07	23.40
Profit before tax from continuing operations	143.75	85.93	17.69	247.36

Six-month period ended 30 June 2017

SEGMENTATION 1H-2017 (in accordance with IFRS-EU)	Retail Banking	Wholesale Banking	Non- financial subsidiaries	Total
	(€ million)			
Net interest income	241.63	(25.97)	16.67	232.32
Dividend income	-	8.56	-	8.56
Share of profit or loss of equity-accounted investees	-	-	4.65	4.65
Fee and commission income and expense	87.56	-	-	87.56
Gains or losses on financial assets and liabilities	-	175.31	5.00	180.31
Exchange differences, net	-	1.15	-	1.15
Other operating income and expenses	(54.70)	1.66	12.41	(40.63)
Gross income	274.49	160.70	38.73	473.92
Personnel expenses	(138.86)	(4.73)	(8.06)	(151.66)
Other administrative expenses, depreciation and amortisation	(85.43)	(10.78)	(15.90)	(112.10)
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	35.11	(0.58)	(0.22)	34.31
Net Operating Income	85.30	144.62	14.55	244.47
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	(0.31)	(1.63)	0.00	(1.94)
Gains/(losses) on derecognition of non-financial assets, net	0.34	0.26	0.25	0.85
Negative goodwill recognised in profit or loss	-	-	-	-
Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	18.01	2.85	0.12	20.98
Profit before tax from continuing operations	103.33	146.10	14.92	264.36

Description of the main business lines

ABANCA develops a business model based on retail banking where its main focus is the customer, who receives individual attention in those cases in which their profile thus requires. The management of unproductive assets is another aspect for which specialised management is offered, with action policies designed under the premise of maximising the value of these assets.

In addition, ABANCA also operates on the financial markets, which are a source of diversification for recurrent income and contribute to the optimisation of resources and risks.

ABANCA identifies the following business lines which coincide with the breakdown reported in its consolidated annual accounts for 2017 and 2016 and with its unaudited condensed consolidated interim financial statements of the Issuer for the six-month period ended 30 June 2018:

A. Retail Banking

The business with retail customers constitutes the main focus around which the most recurring activity of ABANCA takes place. ABANCA's model focuses on providing all-round coverage for the financial needs of its customers through financial and para-financial products and services conceived and designed to include features which can meet their requirements and comply with the corporate values of ABANCA (responsibility, reliability, quality and innovation). The focus strategy of ABANCA is geographically differentiated into two areas: (i) Galicia, Asturias and León, and (ii) rest of Spain. Please see "*Distribution channels*" below.

As of 30 June 2018, ABANCA had approximately 2.1 million customers, of whom 1.9 million were active customers. In turn, they are divided into 1.64 million individual customers and 0.25 million self-employed and corporate clients.

The following table includes a breakdown of the consolidated result before tax of the ABANCA Group's "Retail Banking" business segment for the financial years 2017 and 2016 and for six-month periods ended 30 June 2018 and 2017:

Financial years 2017 and 2016

	31-12-2017	31-12-2016	Var. 17-16
RETAIL BANKING (in accordance with IFRS-EU)	(€ million)	(€ million)	(%)
Net interest income	503.19	446.54	12.69
Dividend income	-	-	-
Share of profit or loss equity-accounted investees	-	-	-
Fee and commission income and expense	169.76	151.60	11.98
Gains or losses on financial assets and liabilities	-	0.86	(100.00)
Exchange differences, net	-	1.52	(100.00)
Other operating income and expenses	(111.18)	(45.07)	146.68
Gross margin	561.77	555.45	1.14
Personnel expenses	(286.87)	(260.96)	9.93
Other administrative expenses, depreciation and amortisation	(182.39)	(177.33)	2.85
Provisions or reversal of provisions and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	57.75	118.18	(51.13)
Net Operating Income	150.25	235.36	(36.16)
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	-	-	-
Gains/losses on derecognition of non-financial assets and investments, net	12.81	80.98	(84.18)
Negative goodwill recognised in profit or loss	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	41.68	26.27	58.66
Profit before tax from continuing operations	204.74	342.61	(40.24)

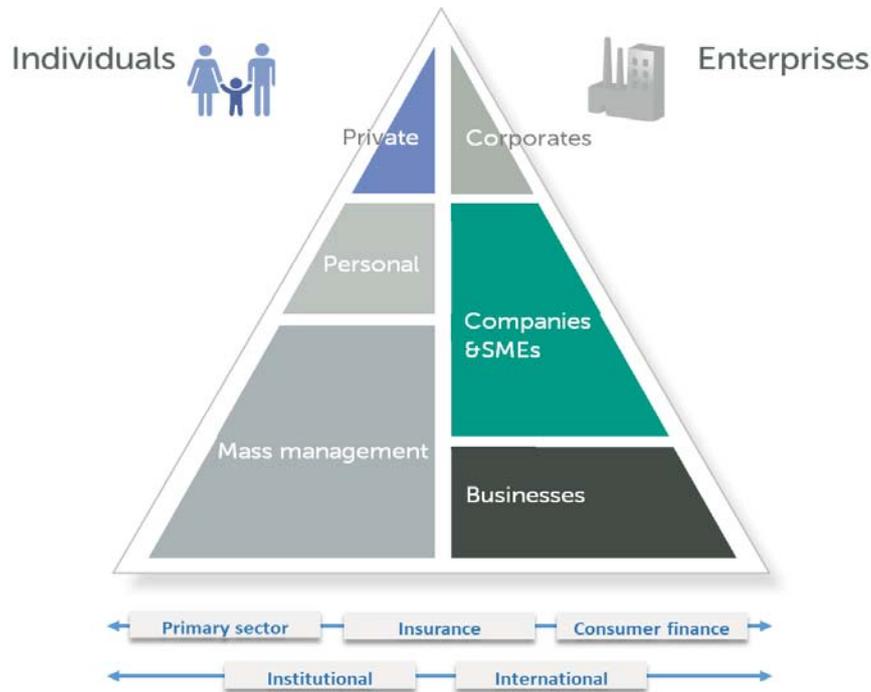
Six-month period ended 30 June 2018 and 2017

	30-06-2018	30-06-2017	Var. 1H- 18/1H-17
RETAIL BANKING (in accordance with IFRS-EU)	(€ million)	(€ million)	(%)
Net interest income	255.16	241.63	5.60
Dividend income	-	-	-
Share of profit or loss equity-accounted investees	-	-	-
Fee and commission income and expense	88.18	87.56	0.71
Gains or losses on financial assets and liabilities	0.00	-	n.a.
Exchange differences, net	-	-	-
Other operating income and expenses	(10.01)	(54.70)	(81.70)
Gross income	333.33	274.49	21.44
Personnel expenses	(140.93)	(138.86)	1.49
Other administrative expenses, depreciation and amortisation	(91.67)	(85.43)	7.30
Provisions or reversal of provisions, and Impairment or reversal of impairment on, and gains and losses arising from changes in cash flows from financial assets not measured at fair value through profit or loss and net gains or losses arising from changes/	4.23	35.11	(87.95)
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss			
Net Operating Income	104.97	85.30	23.06
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	(0.13)	(0.31)	(58.06)
Gains/(losses) on derecognition of non-financial assets, net	15.87	0.34	4,567.65
Negative goodwill recognised in profit or loss	-	-	-
Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	23.04	18.01	27.93
Profit before tax from continuing operations	143.75	103.33	39.12

Customer types and segmentation

ABANCA's commercial strategy is based on segmentation by types of customers, for the purpose of offering different products and services according to their needs, always following a model based on attention and a differentiated value proposal. These products and services are offered in a multichannel environment, increasing the possibilities of interrelationship between the customer and the institution.

As shown in the figure below, the segmentation is divided into two interconnected areas so that the attention can be as personalised and as professional as possible.



The first area classifies the customers by their legal nature and based upon this classification more categories are identified. Based on this criteria, the customers can be divided in:

- *Individuals*, which in turn are classified in (i) mass management (groups of customers with certain homogeneous needs which can be addressed with a more standardised approach) and other categories which are more adapted to specific needs; (ii) personal banking and (iii) private banking.
- *Enterprises*: the difference is made based on invoicing and activity, for the purpose of offering a better service adapted to the specific needs of each group: (i) self-employed workers, businesses and small-scale enterprises; (ii) companies and (iii) corporates.

The second area identifies certain customers based on other differentiating criteria. Thus, units for specific sectors are created (specialised businesses) to provide services to specific collectives:

- *Primary sector*: this unit serves individuals and legal entities comprising the industrial agricultural and livestock activities.
- *Insurance*: this unit provides insurance solutions to all types of customers in the insurance business.
- *Consumer finance*: this unit provides solutions to the consumer sector, requested both by end consumers (purchase deferral, point of sale financing, etc.) and by businesses.
- *Institutional*: this unit deals with public sector needs.
- *International*: this unit develops the strategy of complementary international presence in geographic areas which have links with the "natural market" of ABANCA. Please see "*Principal markets*" below.

1. SPECIALISATION BY LEGAL NATURE

Individuals

Individual customers constitute the main segment of ABANCA, since they represented 87% of its total active customers and 49% of the financing granted to customers as of 30 June 2018. Within this total, as of 30 June 2018, more than €12 billion have been allocated to the acquisition of homes.

Among the main products and services of ABANCA are the following:

- *Financing*: this includes the granting of mortgages, personal loans and consumer financing, products that provide different alternatives designed to adapt themselves to the payment capacity and preferences of the customers as regards payment periods, repayment methods, etc. In addition, ABANCA complements this offer with other products such as guarantees, letters of credit or means of payment.
- *Savings*: the products offered include, *inter alia*, term deposits, savings books, current accounts, investment funds in their different modalities, insurance, pension schemes and fixed- and variable-yield securities.
- *Other services*: direct deposits, means of payment, brokerage of securities and normal operations through different types of channels of remote service channels.

ABANCA operates a segmented and differentiated commercial management depending on the financial capacity of each customer: mass management, personal banking and private banking.

Mass management:

This unit serves those customers whose net worth is below €100,000 and whose monthly income is lower than €3,000. It is the unit with the broadest base of customers, who are "characterised" to be served by one of the members of the office staff (directors, assistant directors, specialised managers or managers) following criteria of added value. The specialised members of the Mass management unit also provide services adapted to the needs of those customers with the higher number of products or services contracted with the ABANCA Group.

Personal banking:

This unit serves customers whose net worth is between €100,000 and €500,000 and/or whose monthly income is higher than €3,000, and who therefore have a great interest in purchasing products which are an alternative to the fixed term and request more differentiated and personalised services. As of 30 June 2018, this segment represented 8% of the total number of active customers, and it is one of the main pillars of the growth for the Individuals segment which ABANCA is boosting with the greatest intensity.

In this endeavour, the managers and advisors of personal banking have become specialised and have obtained the European investment product certificates "*European Investment Practitioner*" (EIP) and "*European Financial Advisor*" (EFA), respectively, on financial markets, investment and savings products, taxation, regulations and standards, as well as financial planning and advice, accredited by the European Financial Planning Association (EFPA).

Private banking:

This unit is focused on serving those customers whose balance is above €500,000 through management with a more specific degree of personalisation, tailored to each customer. As of 30 June 2018, this segment had more than 4,600 customers.

The team of professionals who form the private banking unit include both senior advisers and the asset planner. In 2016, the portfolio delegated management service was incorporated into the team. ABANCA's

team of advisers and asset planners are qualified in different subjects related to financial advice and asset management, accredited by means of certifications recognised at a European level, such as the aforementioned EFA.

ABANCA offers a catalogue of products and services such as tailor-made structures, open fund architecture, integrated advice and information, incorporating advanced management tools such as the *Openfinance* suite.

Enterprises

The service for enterprises holds another pillar in the activity of ABANCA, upon which one of the main focuses of development for ABANCA hinges on SMEs and the self-employed. As of 30 June 2018, ABANCA had a customer base of more than 240,000 enterprises and freelancers who are served by specialised managers assigned according to their needs.

Among the range of products and services aimed at by this segment, the following should be noted:

- *Financing:*
 - *Working capital:* ABANCA provides companies with the necessary liquidity for their daily activity with traditional products such as discounts, advance payments or credit accounts, which are complemented by specific solutions such as confirming or factoring.
 - *Other purposes:* ABANCA provides everyday products such as guarantees, overdrafts, leasing, renting, risk coverage products, etc., or specific solutions for foreign trade operations. The latter include Comex advice, import-export financing, accounts in foreign currencies, payment risk coverage and the delivery of goods and international transfers, among other things.
- *Cash saving-management:* company solutions include particular products such as "cash pooling", current and savings accounts, and joint promotion deposits or pension schemes, in addition to the everyday solutions offered to individuals.
- Other products and services: including insurance, e-commerce, different advice lines on commercial reports, public aid and subsidies, public tenders and bidding, specific electronic banking services for legal persons, etc. More than 140,000 enterprises use the electronic banking services rendered by the ABANCA Group.

Due to the large presence and broad network of offices in its "natural market" (Galicia, Asturias and León), ABANCA has direct contact with the Galician business sector. The complexity of corporate business (which finances both the daily activity and the expansion of any project) makes it necessary to have a high degree of technical and customer knowledge, as well as financial solutions adapted to their different types. For the purpose of responding to this need, ABANCA created units focused on the management of specific segments so that it could provide a more personalised service:

Business Unit

This unit is intended for micro-businesses (turnover below €2 million annually), small shops and freelancers (*micropymes, comercios y autónomos*). It defines itself as one of the main businesses on which ABANCA bases its growth objectives. As of 30 June 2018, this segment represented 12% of the total number of active customers of ABANCA.

The structure of the Business Unit comprises managers with a certain profile and specific training who are joined by branch assistant directors who also manage part of this segment focused on the acquisition business (PST), point of sale financing, working capital and insurance, apart from the revitalisation of the commercial credit activity of these sectors.

Companies & SMEs Unit

This unit is intended to serve medium-sized enterprises. Its purpose is to serve SMEs (annual turnover between €2 and €10 million) and companies whose annual turnover is between €10 and €100 million, providing products and services to cover all their banking needs.

The unit provides support to its customers through "SMEs managers" and "company managers", located both in universal branches and business centres, and receives the commercial support from the directors thereof.

Corporate Banking Unit

This unit serves those companies which define themselves as large-scale enterprises. Its aim is to serve large Spanish business groups (turnover of more than €100 million per year) in order to form part of their financing needs and provide them with integrated coverage. The managers of this area provide support to large number of the main economic groups in Spanish territory.

Drawing on the know-how of the team, it also provides "tailored" financing structures, in specialised formats (syndicated loans, project finance, tax lease, leveraged buyouts of top-level securities, etc.), being active both in the origin and in purchases of the syndicated loan secondary market and the search for international opportunities, mainly in dollars.

2. SPECIALISED BUSINESSES

Primary sector

ABANCA Mar and ABANCA Agro are examples of specialisation in the service for professionals, enterprises, co-operatives and other primary sector agents, embracing the entire value chain of the agriculture and livestock, wine, fishery and farming sectors.

ABANCA Mar provides its services to the maritime and fishery sector through a network of 164 branches as of 30 June 2018 distributed in different areas along the Galician coast. It has a team of professionals (co-ordinated by eight area agents) with financial solutions (products and services) adapted to the characteristics and needs of the fishery sector and ancillary industry.

ABANCA Agro provides its services and support through a range of products designed for this collective (CAP, financial support for those affected by fires, aid for dairy farmers, etc.). This service is provided through 227 branches as of 30 June 2018 where managers are specialised in this sector work.

Insurance

The development of this unit is of key importance as a generator of recurring results for ABANCA, while allowing it to diversify the sources of income generation.

In 2016, ABANCA concluded the relaunching of its new organisational structure of the insurance business and pension schemes. This redesign was possible once ABANCA's reorganisation process, started in 2014, concluded through a series of purchases and mergers which have enabled ABANCA to recover 100% of the control over the value chain of its insurance business.

The main landmarks in this process were (i) in 2014, the remaining 50% of the capital of CxG Aviva Corporación Caixa Galicia de Seguros y Reaseguros was acquired from Aviva Vida y Pensiones (the remaining 50% of the capital was already held by ABANCA) and (ii) in 2015, the acquisition of 50% of the capital of Caixanova Vida y Pensiones from Caser Seguros y Reaseguros (the remaining 50% of the capital was already held by ABANCA). This process was concluded in 2016 with the merger of both companies. Likewise, another important landmark was the merger of the insurance brokers of ABANCA and Banco Echeverría.

Having achieved these goals, ABANCA has redefined its structure, starting to operate through three companies with which it covers the whole spectrum of customers and products:

- ABANCA Seguros Vida y Pensiones: operating in the area of life insurance and pensions.
- ABANCA Seguros Operador de Bancaseguros: brokering of mass-oriented products.
- ABANCA Seguros Correduría: segment of major risks.

This new commercial model, supported by a team of commercial managers in the network of ABANCA offices, has its own team of professionals in each area of the insurance business. The specialisation of these professionals by area, together with managers who are experts in the business of pensions and saving schemes, has managed to substantially increase the amounts earned in these businesses during the year.

Consumer finance

This business unit provides a specific structure for consumer credit, focusing on the point of sale, prescribers (concessionaires, retailers, etc.) and preauthorised credits for customers (cards/loans). ABANCA Consumer Finance has a team of managers that promotes the activity with businesses/concessionaires, as well as providing support to the network of offices. This is complemented by a call-center service for telephone sales and supporting business customers.

Institutional

The public sector has a specific area in ABANCA, in which financial solutions are offered to address the needs of public bodies, public enterprises, associations, foundations, etc. Organised around a territorial network, the institutional banking co-ordinators were managing a portfolio of more than 2,100 customers throughout Spain as of 30 June 2018. Loans, credit policies, guarantee lines, factoring and confirming are the main solutions which, each day, support the activity of institutional customers.

In addition, each year the area co-ordinates more than 400 collaboration agreements with town councils, autonomous regions, associations, foundations, etc. for the development of initiatives which promote the social, economic and cultural development of their environment. ABANCA also collaborates with revenue-collecting entities for the purpose of improving the efficiency of the processes for the collection of fees, public prices and other revenues.

International

Although ABANCA concentrates its activity and business on the Spanish market, it is also present in Portugal (economic area of natural expansion for ABANCA thanks to the many commercial exchanges existing due to the fact of sharing the same border) and Switzerland through branches. Furthermore, ABANCA has eight representative offices in Mexico, Panama, Venezuela, Brazil, the United Kingdom, France, Germany and Switzerland, aimed at providing coverage to the Galician community abroad and the global expansion of Spanish companies which operate in such countries.

The central element of this model is customer service through teams located both in Spain and in their country of residence. The customers have at their disposal up to three points of customer service contacts, between which they may choose at all times, depending on their needs: in their country of residence, their local representative office and, in Spain, their corresponding branch supported by managers focused on the sector of non-resident customers plus, in the case of entrepreneurs, the ABANCA foreign trade manager team.

This international activity is reflected in the business generated with non-residents in Spain, which provided a total business with customers of €5.1 billion at 30 June 2018 (€ 4.6 billion at 31 December 2017 and €4.4 billion at 31 December 2016).

Singular Assets

ABANCA is focused on reducing the volume of unproductive assets while maximising their value for ABANCA. The main lines of action are the management of outstanding receivables of the credit portfolio and the reduction of the stock of properties awarded, always under the premise of generating positive results for ABANCA.

The recovery task focuses on reducing portfolios of suspicious and failed transactions (both current and planned transactions) for the purpose of minimising their negative impact on the results through standardisation, collection or judicial management. All these arrangements have the support of the commercial network, mainly in early delinquency stages. ABANCA's NPL ratio decreased significantly from 13.9% as of 31 December 2014 to 4.6% as of 30 June 2018 (5.3% as of 31 December 2017). The NPL ratio is an APM, the definition, explanation, use and reconciliation of which is set out in "*Description of ABANCA—Alternative Performance Measures*".

Beyond the ordinary recovery tasks, ABANCA also manages the reduction of this stock through the sale of portfolios. The activity is carried out by assessing the different divestment alternatives and strategies of these non-strategic assets, opting for the path enabling the highest value for ABANCA to be obtained.

With regards to the stock of real estate assets, ABANCA has a team in charge of all the processes associated with this type of assets, from their incorporation (where appropriate) and registration in the inventory, until the pricing and sale to third parties. In order to manage its stock of real estate assets, ABANCA chooses mixed solutions that combine outsourcing and internal management in such a way that control in the value chain is secured, and only those transaction which are less critical in the process are outsourced. In relation to the divestment strategy, a segmentation of the real estate portfolio is carried out based on the revaluation capacity of the assets, and prices are fixed for the purpose of maximising the profitability by maintaining an appropriate turnover.

As of 30 June 2018, the internal commercial team directed and co-ordinated a group of more than 450 real estate broker (REBs) distributed throughout the Spanish territory.

Although with a lower volume, ABANCA also carries out the management of leases depending on the type of agreement (commercial lease, social lease or subrogation).

Customer satisfaction

The key idea of ABANCA's model of specialisation and differentiation is that the service must be provided in the most satisfactory manner. In this regard is worth noting that the report of EMO Insights dated May 2018 (a benchmark that summarises the emotional attachment of a customer towards a brand based on positive and negative feelings) placed the ABANCA Group in second position in terms of improvement of the degree of satisfaction of its clients during the last three years.

ABANCA considers the digital strategy as one of the fundamental tools leading to the improvement of customer's satisfaction. In this respect, ABANCA's digital project seeks to accelerate the processes in order to offer a multi-channel, innovative service with higher quality levels and with the possibility of contracting products and services without the need to visit the office. The impetus of the digital strategy, with a special emphasis on mobile banking and electronic banking to carry out all kinds of transactions and manage and contract products via the web and by telephone, has enabled ABANCA to increase the number of active digital customers.

B. Wholesale Banking

Although ABANCA finances its credit activity as a retail business (with a retail loan to deposits ratio of 93.6% as of 30 June 2018 and 93.3% as of 31 December 2017), the Wholesale Banking unit complements the commercial activity of ABANCA and constitutes an additional source of revenue for the income statement. The retail loan to deposits ratio is an APM, the definition, explanation, use and reconciliation of which is set out in "*—Alternative Performance Measures*".

One of the main functions of the area is the investment of the surplus liquidity generated by the retail banking activity. Furthermore, it manages the positions of treasury and liabilities in the capital markets in order to implement the transformation of the periods of the balance sheet and the exposure to interest risk. In addition, Wholesale Banking supports the areas of the commercial network which carry out the discretionary management of portfolios, disseminates knowledge to the managers/customers of ABANCA of the most standardised investment portfolios, and controls the investment funds/pension schemes designed by ABANCA. Furthermore, it collaborates in the distribution of treasury products to the commercial network (retail, enterprises, corporate, Comex and institutional) and co-ordinates the foreign exchange and derivatives desks, for the purpose of offering the best prices in these products to the internal customer (balance sheet/trading) and external customer. Moreover, it is responsible for the management of the investment portfolio in listed and non-listed companies which include non-representative shares for the purpose of generating profitability for ABANCA through dividends or capital gains and maximising efficiency and solvency, minimising outflows and maximising inflows of resources into ABANCA.

The following table includes a breakdown of the consolidated result of the before tax of the ABANCA Group's "Wholesale Banking" business segment for the financial years 2017 and 2016 and for six-month periods ended 30 June 2018 and 2017:

Financial years 2017 and 2016

	31-12-2017	31-12-2016	Var. 17-16
	(€ million)	(€ million)	(%)
WHOLESALE BANKING (in accordance with IFRS-EU)			
Net interest income	(48.37)	(73.18)	(33.90)
Dividend income	10.71	19.60	(45.36)
Share of profit or loss of equity-accounted investees	-	-	-
Fee and commission income and expense	-	0.22	(100.00)
Gains or losses on financial assets and liabilities	197.00	91.90	114.36
Exchange differences, net	2.39	7.35	(67.48)
Other operating income and expenses	3.63	(18.31)	n.a.
Gross margin	165.36	27.58	499.56
Personnel expenses	(13.03)	(10.75)	21.21
Other administrative expenses, depreciation and amortisation	(25.28)	(21.38)	18.24
Provisions or reversal of provisions and Impairment or reversal of impairment on financial assets not measured at fair value through in profit or loss	(3.42)	35.12	n.a.
Net Operating Income	123.64	30.57	304.45
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	0.29	(9.58)	n.a.
Gains/losses on derecognition of non-financial assets and investments, net	15.31	21.97	(30.31)
Negative goodwill recognised in profit or loss	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(3.55)	(49.59)	(92.84)
Profit before tax from continuing operations	135.68	(6.63)	n.a.

Six-months period ended 30 June 2018 and 2017

	30-06-2018	30-06-2017	Var. 1H-18/1H-17
	(€ million)	(€ million)	(%)
WHOLESALE BANKING (in accordance with IFRS-EU)			
Net interest income	(13.84)	(25.97)	(46.71)
Dividend income	8.64	8.56	0.93
Share of profit or loss of equity-accounted investees	-	-	-
Fee and commission income and expense	-	-	-
Gains or losses on financial assets and liabilities	107.95	175.31	(38.42)
Exchange differences, net	1.81	1.15	57.39
Other operating income and expenses	3.27	1.66	96.99
Gross income	107.83	160.70	(32.90)
Personnel expenses	(6.94)	(4.73)	46.72
Other administrative expenses, depreciation and amortisation	(13.19)	(10.78)	22.36
Provisions or reversal of provisions, and Impairment or reversal of impairment on, and gains and losses arising from changes in cash flows from financial assets not measured at fair value through profit or loss and net gains or losses arising from changes/	(1.73)	(0.58)	198.28
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss			
Net Operating Income	85.98	144.62	(40.55)
Impairment or reversal of impairment on investments in joint ventures or associates and on non-financial assets	(0.43)	(1.63)	(73.62)
Gains/(losses) on derecognition of non-financial assets, net	0.08	0.26	(69.23)
Negative goodwill recognised in profit or loss	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0.29	2.85	(89.82)
Profit before tax from continuing operations	85.93	146.10	(41.18)

C. Non-Financial Subsidiaries

This business line is comprised of the portfolio of non-financial enterprises aimed at supporting the local production fabric and the activities of ABANCA (this business line includes the result of the insurance companies of ABANCA except for the income and expenditure from commissions, which are incorporated into the retail banking segment).

As of 30 June 2018, ABANCA maintained an investees portfolio with presence in the food and beverage sectors (*bodegas*), leisure and tourism (*hotels, marina concessionaires, thalassotherapy and fitness etc.*), insurance (brokerage and insurance companies), finance (venture capital, consumer finance, etc.), infrastructure (motorway concessionaires, business park management companies and event and conference promoters) and others such as information and car, maritime, commercial transport, real estate and energy sectors, etc. The investee companies have an important presence and performance in the autonomous region of Galicia.

The following table includes a breakdown of the consolidated result before tax of the ABANCA Group's "Non-Financial Subsidiaries" business segment for the financial years 2017 and 2016 and for six-month periods ended 30 June 2018 and 2017:

Financial years 2017 and 2016

	31-12-2017	31-12-2016	Var. 17-16
NON-FINANCIAL SUBSIDIARIES (in accordance with IFRS-EU)	(€ million)	(€ million)	(%)
Net interest income	33.68	34.56	(2.55)
Dividend income	-	-	-
Share of profit or loss of equity-accounted investees	7.42	6.41	15.76
Fee and commission income and expense	-	-	-
Gains or losses on financial assets and liabilities	5.17	-	n.a.
Exchange differences, net	(0.04)	-	n.a.
Other operating income and expenses	37.80	31.03	21.82
Gross margin	84.02	72.01	16.68
Personnel expenses	(15.10)	(15.29)	(1.24)
Other administrative expenses, depreciation and amortisation	(35.93)	(33.42)	7.51
Provisions or reversal of provisions and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(0.45)	0.71	n.a.
Net Operating Income	32.55	24.01	35.57
Impairment or reversal of impairment on investment joint ventures or associates and on non-financial assets	(1.44)	0.12	n.a.
Gains/losses on derecognition of non-financial assets and investments, net	(3.37)	(1.33)	153.38
Negative goodwill recognised in profit or loss	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-
Profit before tax from continuing operations	27.74	22.80	21.67

Six-month period ended 30 June 2018 and 2017

	30-06-2018	30-06-2017	Var. 1H-18/-1H-17
NON-FINANCIAL SUBSIDIARIES (in accordance with IFRS-EU)	(€ million)	(€ million)	(%)
Net interest income	16.45	16.67	(1.32)
Dividend income	-	-	-
Share of profit or loss of equity-accounted investees	4.98	4.65	7.10
Fee and commission income and expense	-	-	-
Gains or losses on financial assets and liabilities	0.10	5.00	(98.00)
Exchange differences, net	-	-	-
Other operating income and expenses	20.56	12.41	65.67
Gross income	42.09	38.73	8.68
Personnel expenses	(6.01)	(8.06)	(25.43)
Other administrative expenses, depreciation and amortisation	(18.73)	(15.90)	17.80
Provisions or reversal of provisions, and Impairment or reversal of impairment on, and gains and losses arising from changes in cash flows from financial assets not measured at fair value through profit or loss and net gains or losses arising from changes/	(0.23)	(0.22)	4.55
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss			
Net Operating Income	17.13	14.55	17.73
Impairment or reversal of impairment on investment joint ventures or associates and on non-financial assets	0.77	0.00	n.a.
Gains/(losses) on derecognition of non-financial assets, net	(0.28)	0.25	n.a.
Negative goodwill recognised in profit or loss	-	-	-
Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0.07	0.12	(41.67)
Profit before tax from continuing operations	17.69	14.92	18.57

Distribution channels

ABANCA is committed to a customer relationship model based on the multi-channel approach, through which the customer can connect with ABANCA through the different distribution channels offered. By means of a multi-channel distribution platform, the customer decides how and when to carry out their financial transactions, keeping the traditional office as the personalised customer support centre, supplemented by alternative channels (online banking, mobile banking, means of payment, ATM's, etc.).

Branches

The focus strategy of ABANCA is geographically differentiated into two areas:

- Galicia, Asturias and León: the "natural market" of ABANCA, where it has its major market share. As of 31 March 2018, ABANCA was market leader in Galicia with a share of more than 37% (source: *Statement FI 132.E March 2018 of the Bank of Spain*), and it has a broad network of offices (502 as of 30 June 2018).
- Rest of Spain: where the presence of ABANCA is selective and focuses on larger towns (120 offices as of 30 June 2018)

In addition, the national presence of ABANCA is supported by an international presence through operational branches (as of 30 June 2018 it had four in Portugal and one in Switzerland) and representative offices (France, the United Kingdom, Switzerland, Germany, Panama, Brazil, Mexico and Venezuela).



<u>Number of branches</u>	<u>Jun 2018</u>	<u>Dec 2017</u>
Spain.....	622	627
Galicia.....	502	504
Rest of Spain.....	120	123
Abroad.....	5	5
Representative offices abroad.....	8	8
Total.....	635	640

In all cases, this presence is complemented with certain digital channels (please see "*Digital channels*" below).

In recent years, ABANCA has continued with the process of optimising its network, phasing out branches in those centres where an over-presence has been identified based on the demographic and industrial characteristics of the area. Furthermore, offices have been opened in those places around Spain where the ABANCA Group did not have the appropriate representation.

Digital channels

ABANCA also has a virtual banking service (electronic, telephone and mobile banking) that is used by 47% of its customers. ABANCA's mobile banking is among the best valued in the Spanish financial system by users (according to Google Play Store). Moreover, as of 30 June 2018, ABANCA had a wide network of point of sale terminals (43,374 units) and cards (1.58 million units).

In order to adapt to new customers habits, ABANCA has implemented a digitalisation strategy. In addition to enhancing the capabilities of its electronic banking, it has launched numerous payment tools (ABANCA Pay, ABANCA Cash, Samsung Pay, contactless technology) and products suited to the demands of digital customers.

This digital strategy has allowed ABANCA to increase the number of active digital customers by 13% during the first six months of 2018, with a special focus on electronic and mobile banking to carry out all types of transactions and manage and contract products through the web and telephone. During 2018, more than 676,000 customers of ABANCA have used remote services for their queries and transactions. In the same year, the number of ABANCA customers that use mobile banking grew 23%.

These digital channels play an important role in improving efficiency and thanks to them, the transactional activity in branches has decreased, allowing more time for commercial work.

As of 30 June 2018, ABANCA offers its customers a network of 1,059 integrated ATMs within the EURO 6000 network. ABANCA is also continuing with the implementation of state-of-the-art fully equipped ATMs as well as the implementation of new functionalities to respond to the demands reported by customers and branches. These devices allow recurring transactions that involve a high administrative load for the branch employees, such as making cash withdrawals with return of coins, multiple payment of receipts and deposits of exact amounts and return of change with the card.

New significant products and/or services

The most significant innovations developed by ABANCA during 2017 and up to the date of this Prospectus are related to mobile services. These free of payment services, secure for the user, have added new functionalities to those already consolidated (ABANCA Pay, ABANCA Cash, Halcash, Samsung Pay, etc.):

- *Facial identification through the iPhone X.* The 2017 latest version of the application for Apple terminals has the novelty of compatibility with the new facial identification feature Face ID, which allows a more agile access as well as being more secure and more reliable with respect to previous systems.
- *Possibility of becoming a customer through a video call.* The process comprises a double validation of the identity of the customer, first by checking the authenticity of the scanned identity document; and, later on, in the video call, with an indicator of biometric similarity between the customer's image (obtained in the video call) and the photo of his identity document.
- *ABANCA Firma Empresas.* This mobile phone application (app) allows signatories in accounts of legal entities or other customers that carry out transactions that require several signatures to simplify the signing of transactions.
- *Mobile money transfer to ATM through voice.* ABANCA is able to make, using only voice commands, cash money transfer transactions from a mobile phone to be withdrawn by the recipient at an ATM.
- *New functionalities for insurance management.* New features have been recently implemented into ABANCA's mobile banking app. Currently the app allows customers to consult and modify policy's charge account, check the last bill of an insurance already paid and, for home insurances, change the insured amount for buildings and content.
- *Wallet in ABANCA Pay.* The possibility of paying in shops was incorporated into ABANCA's Pay service, the ABANCA's application for sending money immediately from mobiles.
- ABANCA Pay has also incorporated the Masterpass service, which allows paying in online shops with the *same* app, a new means of payment to make purchases on the Internet through mobile, tablet or computer.

These innovations together with other products developed in 2016 are a distinguishing factor for the customer orientation strategy of the ABANCA Group. Among the new products developed in 2016 it is worth highlighting the "Insurance-flatrate". This product allows payment of all insurance receipts of a family unit in a single monthly receipt. It also allows free monthly financing, the possibility of postponement of two monthly payments at no cost every 12 months, personalised management through a free-of-charge single-phone number, up to a 7% loyalty bonus in each monthly instalment and delivery of periodic information of all insurances grouped into a single monthly statement. This product is key in the differentiation strategy of ABANCA's insurance business and it allows both obtaining new policies and fostering customer loyalty.

Principal markets

Within this multi-channel distribution model (please see "*Distribution Channels*" above), ABANCA has positioned itself in the Spanish market in different ways, depending on the different geographic areas:

- In the "*natural market*" (autonomous regions of Galicia, Asturias and province of León), the expansion of the branch network means the traditional branch remains as the basic instrument for the relationship with the customer, acting as the advice centre and point of sale, always counting on the support of remote services that make it easier for the customer to carry out their transactions. The credit market share ABANCA had in Galicia as of 31 March 2018 exceeded 32% in credit, 41% in deposits and more than 37% in total turnover (source: *FI 132.E Statement of Bank of Spain dated 31 March 2018*).

In Galicia, the large branch network of the ABANCA Group makes it easier for the Galician population to access financial services in an environment with a dispersed population. As of 30 June 2018, ABANCA provided its services in 99 small towns where it is the only financial institution present and had two mobile offices which move on a regular basis to other centres of population where there is no branch, thus favouring their financial inclusion.

- In the rest of the Spanish territory or "*expansion market*" and abroad, ABANCA opts for a far more selective physical network, focusing on the customer, with a high net worth and strongly spurred on by online banking.

With regard to the international service model of ABANCA, this is focused on attention to the large community of entrepreneurs and families of Spanish origin who reside in European and American countries.

Market trends

From 31 December 2017 to the date of this Prospectus, the most significant trends in relation to the activities of the sector have been the following (source: *Bank of Spain and INVERCO*):

- Retail credit in Spain fell by 0.7% in the first six months of 2018, still affected by the deleveraging process of the Spanish economy. The balance of credit for companies linked to the acquisition of private residences fell by 3.3% and 0.4% to June 2018, while the outstanding balance of consumer credit grew on the other hand (5.6%) thanks to the dynamism of private consumption. The new production of retail credit grew in the first six months of 2018 giving a year-on-year increase of 11%, with advances in terms of both individuals and companies.
- As for retail deposits, there was an increase of 3.0% in the balance in the first six months of 2018, with the drain (especially with regard to term) towards resources managed in investment funds continuing, the total wealth of which grew by 3.4% to June 2018.
- The context of negative interest rates in real terms and the fall in the balance of credit investment is maintaining the pressure on interest margins which, in view of the results presented by the main Spanish entities, are continuing their negative rates of change.

Administrative, management and supervisory bodies

Board of Directors

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

Name	Title	Category
Mr. Juan Carlos Escotet Rodríguez	Chairman ⁽¹⁾	Proprietary ⁽²⁾
Mr. Francisco Botas Ratera	Chief Executive Officer	Executive
Mr. Pedro Raúl López Jácome	Director	Other external ⁽³⁾
Ms. Carina Szpilka Lázaro	Director	Independent
Mr. José García Montalvo	Director	Independent
Mr. José Ramón Rodrigo Zarza	Director	Independent
Mr. Eduardo Eraña Guerra	Director	Independent
Ms. Leticia Iglesias Herraiz	Director	Independent ⁽⁴⁾
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)	
Ms. María Consolación Borrás Retamero	Vice Secretary (non-Member)	

- (1) Mr. Juan Carlos Escotet Rodríguez informed ABANCA's Board of Directors that he would temporarily be absent from his duties as Chairman in order to assist the teams in his companies in Venezuela. As a result of this, ABANCA's Board of Directors resolved to apply the internal regulations in this regard and Mr. Eduardo Eraña Guerra will temporarily be carrying out the duties corresponding to the Chairman of ABANCA's Board of Directors.
- (2) Shareholder represented: ABANCA Holding.
- (3) Mr. Pedro Raúl López Jácome is no longer considered an independent director of ABANCA's Board of Directors as a consequence of a related-party transaction entered into with ABANCA in July 2016. Consequently, his category in the Board of Directors has been reclassified to "other external".
- (4) This appointment is pending registration with the relevant public registries.

The business address of each member of the Board of Directors is: Rúa Nueva, 30, A Coruña, Spain.

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

Director	Company	Title
Mr. Juan Carlos Escotet Rodríguez	Confederación Española de Cajas de Ahorro	Director
	ABANCA Holding Financiero, S.A.	Chairman
	Banesco Holding, C.A.	Chairman
	Banesco Banco Universal, C.A.	Chairman
	Banesco Holding Latinoamérica, S.A.	Director
	Banesco Servicios Administrativos, C.A.	Chairman
	Banesco Seguros, S.A.	Vice-Chairman

	Banesco Holding Financiero, S.L.U.	Director
	Banesco, S.A.	Director
	Banesco Seguros, S.A.	Director
	Banesco Banco Múltiple, S.A.	Vice-Chairman
Mr. Francisco Botas Ratera	ABANCA Holding Financiero, S.A.	Chief Executive Officer
	Cecabank, S.A.	Director
Mr. Pedro Raúl López Jácome	Miura Holding, C.V.	Director/ Chairman
	Miura Capital Panamá, Inc.	Director/ Chairman
	Imantia Capital S.G.I.I.C., S.A.	Vice-Chairman
Ms. Carina Szpilka Lázaro	Grifols, S.A.	Director
	Kanoar Ventures SGEIC, S.A.	Chairman
	Asociación Española de la Economía Digital (Adigital)	Chairman
	Meliá Hotels International, S.A.	Director
Mr. Eduardo Eraña Guerra	Banco Lafise Bancentro, S.A. (Nicaragua)	Director
	Banco Lafise, S.A. (Costa Rica)	Director
	Banco Múltiple Lafise, S.A. (República Dominicana)	Director
	Banco Lafise (Honduras)	Director

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

Executive Credit Commission

The Executive Credit Commission has the powers that correspond to the Board of Directors in relation to the granting and monitoring of funding transactions of any nature, including those related to the improvement, recognition, amendment, extension, advance of maturity, termination, extinction, renewal and, in general, whatsoever powers applicable with regard to acts, contracts or operations specific to the ordinary trading or course of banking entities as part of their operational funding mechanism.

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

Name	Position
Mr. Francisco Botas Ratera	Chairman
Mr. Pedro Raúl López Jácome	Member
Mr. José Ramón Rodrigo Zarza	Member
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)
Mr. José Luis Dorrego Martín-Barbadillo	Deputy Secretary (non-Member)

Audit and Compliance Commission

The Audit and Compliance Commission has, in general terms, the following functions: (i) report to the General Meeting of Shareholders on the issues of its competence; (ii) functions with regard to the external auditor; (iii) functions regarding the information and internal control systems and the internal auditing function; (iv) to assess compliance with the Internal Code of Conduct in Securities Markets, with the Regulations of the Board of Directors and, in general, with ABANCA's governance rules and make the

necessary proposals for their improvement; (v) to supervise compliance with and the performance of the internal control manual for criminal risk prevention approved by the Board of Directors; (vi) to report to the Board of Directors in advance on all matters set forth in the law, the bylaws and in the Regulations of the Board of Directors; (vii) to submit to the Board of Directors as many proposals it deems appropriate on matters within the purview of its powers.

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

Name	Position
Ms. Leticia Iglesias Herraiz	Chairwoman
Mr. José García Montalvo	Member
Ms. Carina Szpilka Lázaro	Member
Mr. Pedro Raúl López Jácome	Member
Mr. José Ramón Rodrigo Zarza	Member
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)

Appointments Commission

The Appointments Commission has, in general terms, the following functions: (i) to evaluate the balance between knowledge, skills, diversity and experience within the Board of Directors and develop a description of the duties and necessary skills required for a particular appointment, evaluating the time and dedication required to effectively perform their duties; (ii) to establish a representation target for the under-represented gender in the Board of Directors and develop guidelines on how to achieve such objective; (iii) to identify and recommend, with a view to its approval by the Board of Directors or the General Meeting of Shareholders, candidates to fill any vacancies in the Board of Directors; (iv) to review regularly the policy of the Board of Directors regarding the selection and appointment of members of senior management and formulate recommendations and report on proposals for the appointment and removal of senior managers and the basic conditions of their contracts; (v) to implement and monitor the succession plan for directors approved by the Board of Directors; (vi) to inform previously the Board of Directors about the members who shall form part of each Commission; (vii) to verify, on a yearly basis, the status of ABANCA's directors and inform the Board of Directors accordingly for its consideration during the drafting of the annual report on corporate governance; (viii) to evaluate regularly, and at least once a year, the structure, size, composition and performance of the Board of Directors, making recommendations with respect to possible changes; (ix) to evaluate regularly and report to the Board of Directors accordingly at least once a year as regards the suitability of the different members of the Board of Directors and that of the Board as a whole; (x) to define policies and guidelines for the management of the human capital of ABANCA; and (xi) to report on the appointment of a Chairperson of Honour.

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

Name	Position
Mr. Eduardo Eraña Guerra	Chairman
Mr. Pedro Raúl López Jácome	Member
Mr. José Ramón Rodrigo Zarza	Member
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)

Remuneration Commission

The Remuneration Commission has, in general terms, the following functions: (i) propose to the Board the remuneration policy of directors (which shall be put to the vote of the General Meeting under the Regulation of the Board of Directors) and that of the senior management, as well as the individual remuneration and remaining contract terms and conditions of executive directors, ensuring their observance; (ii) directly supervise the remuneration of the managers responsible for risk management and those with compliance; (iii) periodically review the remuneration schemes for their updating and ensure that the remuneration of directors and senior managers conform to standards of moderation and correspondence to the performance

of ABANCA and that their remuneration and that of the identified staff (as defined in the applicable law) do not incentivize taking risks beyond the level authorized by ABANCA so that they consistent with and promote sound and effective risk management. Furthermore, the remuneration policy of the identified staff shall be subject to a central and independent review at least once a year so as to be ascertain whether the remuneration patterns and procedures established by the board of directors are met; (iv) verify the independency of the external advisors that may be hired, if any, in the capacity of experts in remunerations; (v) ensure the transparency of the remuneration policies in such terms as envisaged by the applicable norms and regulations and the observance of the remuneration policy established by ABANCA; and (vi) assess the achievement of the objectives the remuneration is linked to, as well as the need to make risk-based adjustments, if any, to the said remunerations.

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

Name	Position
Ms. Carina Szpilka Lázaro	Chairman
Mr. José García Montalvo	Member
Mr. Pedro Raúl López Jácome	Member
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)

Comprehensive Risk Commission

The Comprehensive Risk Commission has, in general terms, the following functions: (i) advise the Board of Directors on the current and future risk appetite of ABANCA and its strategy on this regard and assisting it on ensuring the implementation of that strategy; (ii) oversee that the pricing policy of assets and liabilities offered to customers takes fully into account ABANCA's business model and its risk strategy; (iii) determine in collaboration with the Board of Directors, the nature, format and frequency of the information on risks that the Commission itself and the Board of Directors shall receive; (iv) collaborate in the implementation of rational remuneration policies and practices. To this end, the Commission shall evaluate, without prejudice to the duties of the Remuneration Commission, whether the incentive policy provided for in the remuneration scheme takes into account the risk, the capital, the liquidity, and the probability and appropriateness of the profits; and (v) propose the selection, appointment, reappointment and dismissal of the Manager of the Risk Unit (General Manager of Corporate Control and Risks).

As of the date of this Prospectus, the Comprehensive Risk Commission is composed of the following directors:

Name	Position
Mr. José García Montalvo	Chairman
Ms. Leticia Iglesias Herraiz	Member
Mr. Pedro Raúl López Jácome	Member
Mr. José Ramón Rodrigo Zarza	Member
Mr. José Eduardo Álvarez-Naveiro Sánchez	Secretary (non-Member)

Management Team

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

Name	Position
Mr. Francisco Botas Ratera	Chief Executive Officer
Mr. Juan María Hernández Andrés	Special Assets General Manager
Mr. Juan Luis Vargas-Zúñiga Mendoza	Institutional Distribution and Management, Capital Markets General Manager
Mr. Luis Beraza de Diego	Spain Business General Manager
Mr. José Luis Vázquez Fernández	Credit General Manager
Mr. Miguel Angel Escotet Alvarez	Corporate Social Responsibility and Communications General Manager
Mr. José Manuel Valiño Blanco	IT, Data, Processes and Operations General Manager
Mr. Pablo Triñanes Lago	Chief Risk Officer
Mr. Alberto de Francisco Guisasola	Chief Financial Officer (CFO)
Mrs. Maria Camino Agra	Human Resources General Manager
Mr. José Eduardo Álvarez-Naveiro	Corp. Governance and Legal Affairs General Manager
Mr. Alfonso Caruana Cámara	International Business General Manager
Mr. Julián José Serrapio Vigo	Chief Audit Officer (CAO)
Mr. Pedro Veiga Fernández	Strategic Planning and Project Management Office Deputy General Manager

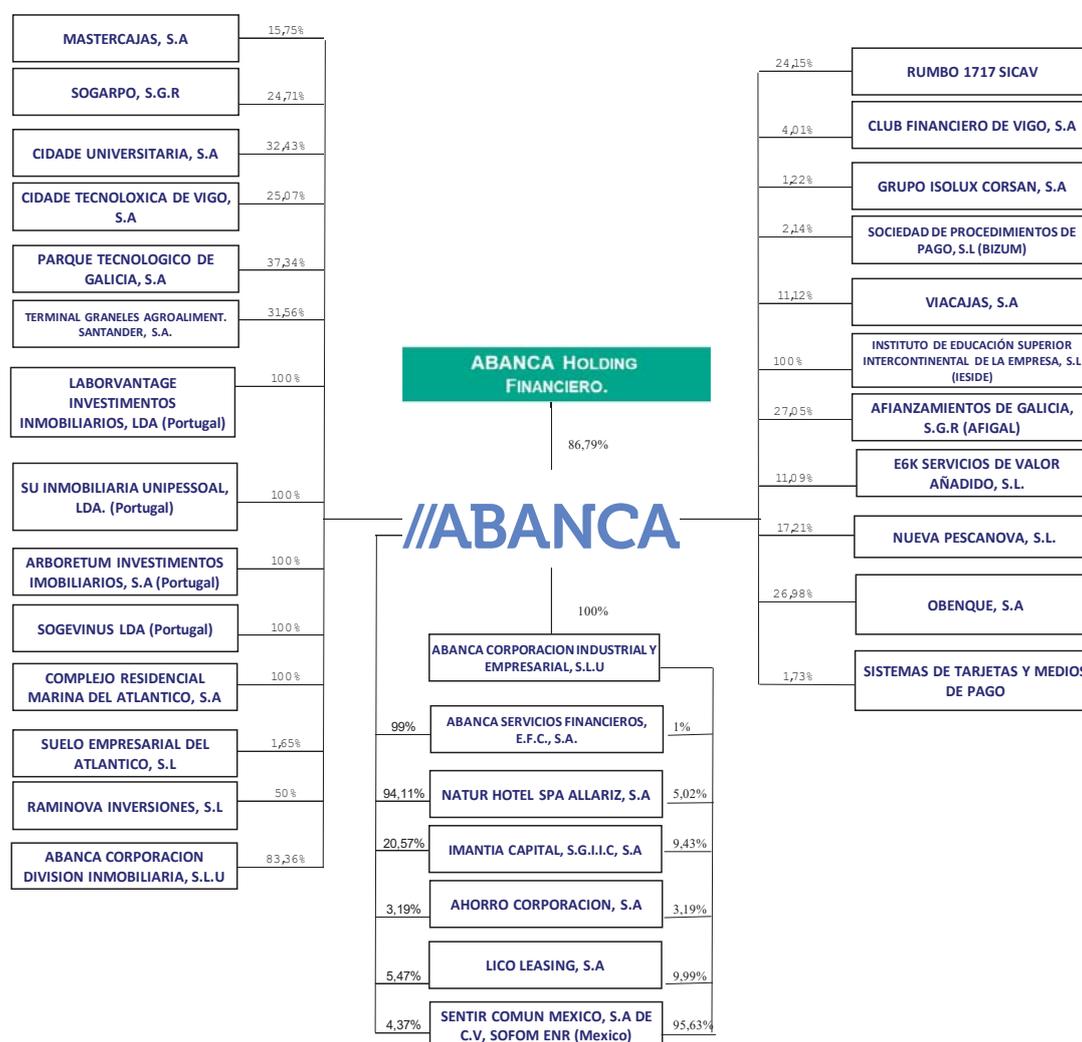
There are no members of the management team of ABANCA with significant activities outside ABANCA or companies or members of the ABANCA Group as of the date of this Prospectus.

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

The business address of each member of ABANCA's management team mentioned above is Rua Nueva, 30, A Coruña, Spain.

Organisational structure

The following chart summarises the companies making up the ABANCA Group and ABANCA's ownership of such companies as of the date of this Prospectus:



Capital structure

As of the date of this Prospectus, ABANCA's share capital is €2,453,657,413 divided into 2,453,657,413 fully subscribed and paid ordinary shares with a par value of €1 each. All shares are of the same class with the same rights attached.

Shareholders

As of 30 June 2018, the shareholders of ABANCA are:

Shareholder	Interest
ABANCA Holding	86.79%
E.C. Nominees Limited	1.09%
Other shareholders	3.34%
Treasury shares	8.78%

As of the date of this Prospectus, ABANCA's share capital is owned indirectly (through ABANCA Holding) in an 86.79% by Mr. Juan Carlos Escotet Rodríguez.

Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which ABANCA is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of ABANCA.

Information about the legal and regulatory risks that ABANCA may be exposed to in the near future can be found in "The ABANCA Group is exposed to risk of loss from legal and regulatory claims" and "The invalidity of what are known as "floor clauses" ("cláusulas suelo") and their total retroactivity could negatively affect the ABANCA Group" under the Risk Factors section.

Capital adequacy

The table below sets out ABANCA's, ABANCA Group's and the ABANCA Holding Group's CET 1 ratios, Tier 1 ratios, total capital ratios and Distance to Trigger Event as of 30 June 2018, 31 December 2017 and 31 December 2016:

	Phased-in			Fully Loaded		
	Abanca	Abanca Group	Abanca Holding Group	Abanca	Abanca Group	Abanca Holding Group
Common Equity Tier 1 ratio (%) as at 30 June 2018	14.1%	14.7%	13.5%	13.5%	13.9%	12.7%
Common Equity Tier 1 ratio (%) as at 31 December 2017	14.3%	14.9%	14.0%	14.0%	14.3%	13.2%
Common Equity Tier 1 ratio (%) as at 31 December 2016	14.5%	14.6%	13.9%	13.9%	13.2%	12.3%
Tier 1 ratio (%) as at 30 June 2018	14.1%	14.7%	13.6%	13.5%	13.9%	12.7%
Tier 1 ratio (%) as at 31 December 2017	14.3%	14.9%	14.0%	14.0%	14.3%	13.2%
Tier 1 ratio (%) as at 31 December 2016	14.5%	14.6%	13.9%	13.9%	13.2%	12.4%
Total Capital ratio (%) as at 30 June 2018	14.1%	14.7%	13.7%	13.5%	13.9%	12.8%
Total Capital ratio (%) as at 31 December 2017	14.7%	15.3%	14.3%	14.3%	14.7%	13.6%
Total Capital ratio (%) as at 31 December 2016	14.9%	14.6%	13.9%	14.2%	13.5%	12.7%
Distance to Trigger Event ^(*) (%) as at 30 June 2018	8.975%	9.575%	8.375%	8.375%	8.775%	7.575%
Distance to Trigger Event ^(*) (%) as at 31 December 2017	9.175%	9.775%	8.875%	8.875%	9.175%	8.075%
Distance to Trigger Event ^(*) (%) as at 31 December 2016	9.375%	9.475%	8.775%	8.775%	8.075%	7.175%
Distance to Trigger Event (in € million) ^(**) as at 30 June 2018	2,446.90	2,557.69	2,218.47	2,279.45	2,339.93	2,003.05
Distance to Trigger Event (in € million) ^(**) as at 31 December 2017	2,460.21	2,545.00	2,290.13	2,379.77	2,387.35	2,080.07
Distance to Trigger Event (in € million) ^(**) as at 31 December 2016	2,348.80	2,307.77	2,145.02	2,198.48	1,950.59	1,738.24

(*) Distance to Trigger Event (%) is calculated by subtracting the Trigger Event ratio (5,125%) from the capital held (CET1, T1 or Own funds).

(**) Distance to Trigger Event (in € million) is calculated by multiplying the Distance to Trigger Event (%) by the RWA.

The differences between the ABANCA Group's and ABANCA Holding Group's ratios derive from the different amounts of CET 1 capital, Tier 1 capital and Total Capital (numerators of the relevant ratios) of both groups. The differences between those amounts are due to (i) the different minority shareholders' structure of the parent companies of both groups, and (ii) the different deduction structures between both groups as a consequence of the different thresholds to activate deductions in each group and the different amounts subject to deduction.

Overview of financial information

The sections below contain financial information of ABANCA, the ABANCA Group and the ABANCA Holding Group extracted from their relevant financial statements, which have been prepared in accordance with IFRS-EU/IAS 34.

ABANCA publishes its individual and consolidated annual accounts as well as the half-year consolidated financial statements corresponding to the first six months of the year. The ABANCA Holding Group does not publish any financial information.

Financial information of ABANCA

The table below includes the individual balance sheets of ABANCA as of 31 December 2017 and 2016:

ASSETS	31/12/2017 (€ million)	31/12/2016 ^(*) (€ million)	Var. 17-16 (%)
Cash, cash balances with central banks and other demand deposits	1,699.57	496.12	242.57
Financial assets held for trading	100.32	141.05	(28.88)
Derivatives	100.32	141.05	(28.88)
Debt securities	-	-	-
Available-for-sale financial assets	8,478.58	5,725.92	48.07
Equity instruments	101.14	108.43	(6.72)
Debt securities	8,377.45	5,617.49	49.13
Loans and receivables	33,915.82	31,977.37	6.06
Debt securities	3,539.90	3,734.50	(5.21)
Loans and advances	30,375.92	28,242.87	7.55
Credit institutions	553.99	301.68	83.63
Customers	29,821.94	27,941.20	6.73
Held-to-maturity investments	-	-	-
Derivatives - hedge accounting	32.01	57.92	(44.73)
Investments in subsidiaries, joint ventures and associates	2,467.64	2,389.78	3.26
Subsidiaries	2,462.98	2,385.12	3.26
Associates	4.67	4.67	-
Tangible assets	995.99	994.23	0.18
Fixed assets	782.91	816.76	(4.14)
For own use	782.91	816.76	(4.14)
Investment property	213.08	177.48	20.06
Intangible assets	10.71	10.37	3.28
Goodwill	-	-	-
Other intangible assets	10.71	10.37	3.28
Tax assets	2,766.91	2,791.78	(0.89)
Current tax assets	75.81	91.37	(17.03)
Deferred tax assets	2,691.10	2,700.42	(0.35)
Other assets	289.01	274.93	5.12
Insurance contracts linked to pensions	149.00	150.93	(1.28)
Inventories	1.12	1.41	(20.57)
Other assets	138.89	122.59	13.30
Non-current assets and disposal groups classified as held for sale	158.38	158.34	0.03
TOTAL ASSETS	50,914.97	45,017.81	13.10
LIABILITIES AND EQUITY			
Financial liabilities held for trading	84.89	116.62	(27.21)
Derivatives	84.89	116.62	(27.21)
Financial liabilities at amortised cost	46,110.83	39,946.32	15.43
Deposits	43,388.58	37,661.94	15.21
Central banks	3,449.92	1,700.00	102.94
Credit institutions	4,288.30	2,277.78	88.27
Customers	37,501.33	35,075.01	6.92
Debt securities issued	789.73	812.25	(2.77)
Other financial liabilities	81.54	81.29	0.31
<i>Memorandum item: subordinated liabilities</i>	8.57	8.86	(3.27)
Derivatives - hedge accounting	88.20	149.48	(41.00)
Provisions	385.48	518.92	(25.71)
Pensions and other post-employment defined benefit obligations	176.78	190.60	(7.25)
Outstanding legal proceedings and litigation in relation to taxes	2.28	2.61	(12.64)
Commitments and guarantees extended	75.67	79.38	(4.67)
Other provisions	130.75	246.33	(46.92)

Tax liabilities	45.78	71.85	(36.28)
Current tax liabilities	-	36.36	(100.00)
Deferred tax liabilities	45.78	35.50	28.96
Other liabilities	273.91	221.66	23.57
TOTAL LIABILITIES	46,989.09	41,024.85	14.54
EQUITY			
Shareholders' equity	3,941.75	4,077.69	(3.33)
Capital	2,453.66	2,453.66	-
Paid-in capital	2,453.66	2,453.66	-
Share premium	433.90	433.90	-
Retained earnings	1,099.75	1,099.41	0.03
Treasury shares	(226.94)	(225.03)	0.85
Profit for the year	291.96	315.74	(7.53)
Interim dividends	(110.58)	-	n.a.
Accumulated other comprehensive income	(15.87)	(84.73)	(81.27)
Items that will not be reclassified to profit or loss	(13.91)	1.79	n.a.
Actuarial gains or losses on defined benefit pension plans	(13.91)	1.79	n.a.
Items that may be reclassified to profit or loss	(1.96)	(86.52)	(97.73)
Translation of foreign currency	-	-	-
Hedging derivatives Cash flow edges (effective position)	(47.84)	(44.64)	7.17
Available-for-sale financial assets	45.87	(41.88)	n.a.
Debt instruments	44.44	(41.01)	n.a.
Equity instruments	1.44	(0.86)	n.a.
Non-current assets and disposal groups classified as held for sale	-	-	-
TOTAL EQUITY	3,925.88	3,992.96	(1.68)
TOTAL LIABILITIES AND EQUITY	50,914.97	45,017.81	13.10

(*) In 2017, certain financial information relating to the year ended 31 December 2016 was restated in the 2017 Individual Annual Accounts in order to present the 2016 financial information in a comparable manner to the classification in the 2017 Individual Annual Accounts. "Interest Income" and "Interest Expenses" have been restated by the same amount €132.7 million with no resulting impact in the statement of profit or loss. In addition, "Other financial liabilities" amounting to €36.3 million, were also restated and classified under the caption "Current tax liabilities" in the 2017 Individual Annual Accounts while in the 2016 Individual Annual Accounts they were included under the caption "Other financial liabilities". Accordingly, the 2016 financial information included in this Prospectus differs from that included in the 2016 Individual Annual Accounts.

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

	31/12/2017 (€ million)	31/12/2016 ^(*) (€ million)	Var. 17-16 (%)
Interest Income	655.57	639.61	2.50
Interest Expense	(211.47)	(268.34)	(21.19)
Net interest income	444.10	371.27	19.62
Dividend Income	144.01	76.37	88.57
Fee and Commission Income	172.43	148.74	15.93
Fee and Commission Expense	(19.42)	(16.76)	15.87
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	81.38	46.56	74.79
Gains or losses on financial assets and liabilities held for trading, net	4.58	9.22	(50.33)
Gains or losses on hedge accounting, net	(2.20)	(2.33)	(5.58)
Exchange differences, net	3.90	8.63	(54.81)
Other operating income	17.76	24.85	(28.53)
Other operating expenses	(128.94)	(90.95)	41.77
Gross margin	717.62	575.60	24.67
Administrative expenses	(447.37)	(417.42)	7.18
Personnel expenses	(292.87)	(266.41)	9.93
Other administrative expenses	(154.50)	(151.01)	2.31
Depreciation and amortisation	(32.59)	(30.90)	5.47
Provisions or reversals of provisions	(22.93)	8.51	n.a.
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	79.72	149.79	(46.78)
Available-for-sale financial assets	(1.31)	-	n.a.
Loans and receivables	81.03	149.79	(45.90)
Net operating income	294.44	285.58	3.10
Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates	1.70	3.75	(54.67)
Impairment or reversal of impairment on non-financial assets	(0.89)	(4.36)	(79.59)
Tangible assets	(0.89)	(4.36)	(79.59)
Other	-	-	-
Gains or losses on derecognition of non-financial assets and investments, net	12.81	80.98	(84.18)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	5.84	1.73	237.57
Profit or loss before taxes from continuing operations	313.90	367.68	(14.63)
Income tax expense or income related to profit or loss from continuing operations	(21.94)	(51.94)	(57.76)
Profit or loss after taxes from continuing operations	291.96	315.74	(7.53)
Profit or loss after tax from discontinued operations	-	-	-
Profit for the year	291.96	315.74	(7.53)
Earnings per share (euros)			
Basic	0.1304	0.1410	(7.52)
Diluted	0.1304	0.1410	(7.52)

(*) In 2017, certain financial information relating to the year ended 31 December 2016 was restated in the 2017 Individual Annual Accounts in order to present the 2016 financial information in a comparable manner to the classification in the 2017 Individual Annual Accounts. "Interest Income" and "Interest Expenses" have been restated by the same amount €132.7 million with no resulting impact in the statement of profit or loss. In addition, "Other financial liabilities", amounting to €36.3 million, were also restated and classified under the caption "Current tax liabilities" in the 2017 Individual Annual Accounts while in 2016 Individual Annual Accounts they were included under the caption "Other financial liabilities". Accordingly, the 2016 financial information included in this Prospectus differs from that included in the 2016 Individual Annual Accounts.

Financial information of the ABANCA Group

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

ASSETS	31/12/2017 (€ million)	31/12/2016 ^e (€ million)	Var. 17-16 (%)
Cash, cash balances with central banks and other demand deposits	1,701.99	497.90	241.83
Financial assets held for trading	100.32	141.05	(28.88)
Derivatives	100.32	141.05	(28.88)
Debt securities	-	-	-
Financial assets designated at fair value through profit or loss	37.89	33.32	13.72
Equity instruments	33.77	29.07	16.17
Debt securities	4.12	4.24	(2.83)
Available-for-sale financial assets	9,787.53	7,234.47	35.29
Equity instruments	494.37	653.90	(24.40)
Debt securities	9,293.15	6,580.57	41.22
Loans and receivables	33,195.41	31,218.59	6.33
Debt securities	3,539.90	3,734.50	(5.21)
Loans and advances	29,655.50	27,484.09	7.90
Credit institutions	535.24	302.01	77.23
Customers	29,120.27	27,182.08	7.13
Held-to-maturity investments	-	-	-
Derivatives - hedge accounting	32.01	57.92	(44.73)
Investments in joint ventures and associates	158.55	186.32	(14.90)
Associates	158.55	186.32	(14.90)
Assets covered by insurance or reinsurance contracts	6.02	4.77	26.21
Tangible assets	1,117.59	1,106.07	1.04
Fixed assets	838.96	869.70	(3.53)
For own use	838.96	869.70	(3.53)
Investment property	278.63	236.37	17.88
Intangible assets	368.71	365.72	0.82
Goodwill	61.73	48.10	28.34
Other intangible assets	306.98	317.62	(3.35)
Tax assets	3,408.74	3,410.99	(0.07)
Current tax assets	118.52	108.05	9.69
Deferred tax assets	3,290.22	3,302.94	(0.39)
Other assets	371.78	355.33	4.63
Insurance contracts linked to pensions	149.00	150.93	(1.28)
Inventories	63.50	62.27	1.98
Other assets	159.27	142.14	12.05
Non-current assets and disposal groups classified as held for sale	497.82	525.96	(5.35)
TOTAL ASSETS	50,784.35	45,138.41	12.51
LIABILITIES AND EQUITY			
Financial liabilities held for trading	84.89	116.62	(27.21)
Derivatives	84.89	116.62	(27.21)
Financial liabilities at amortised cost	44,326.34	38,626.03	14.76
Deposits	43,388.58	37,661.94	15.21
Central banks	3,449.92	1,700.00	102.94
Credit institutions	4,290.97	2,278.12	88.36
Customers	35,647.69	33,683.83	5.83
Debt securities issued	789.73	812.25	(2.77)
Other financial liabilities	148.03	151.84	(2.51)
<i>Memorandum item: subordinated liabilities</i>	8.57	8.86	(3.27)

Derivatives - hedge accounting			
	88.20	149.48	(41.00)
Liabilities covered by insurance or reinsurance contracts			
	1,249.52	1,147.11	8.93
Provisions	409.68	538.62	(23.94)
Pensions and other post-employment defined benefit obligations	176.78	190.60	(7.25)
Outstanding legal proceedings and litigation in relation to taxes	2.28	2.61	(12.64)
Commitments and guarantees extended	75.67	79.38	(4.67)
Other provisions	154.95	266.02	(41.75)
Tax liabilities	242.59	253.79	(4.41)
Current tax liabilities	17.39	41.82	(58.42)
Deferred tax liabilities	225.20	211.98	6.24
Other liabilities	277.75	223.58	24.23
TOTAL LIABILITIES	46,678.97	41,055.22	13.70
NET EQUITY			
			-
Shareholders' equity	4,087.53	4,151.19	(1.53)
Capital	2,453.66	2,453.66	-
Paid-in capital	2,453.66	2,453.66	-
Share premium	433.90	433.90	-
Retained earnings	1,180.24	1,195.54	(1.28)
Other reserves	(9.82)	(40.50)	(75.75)
Accumulated reserves or losses on investments in joint ventures and associates	(9.82)	(40.50)	(75.75)
Treasury shares	(226.94)	(225.03)	0.85
Profit attributable to the owners of the Parent	367.07	333.62	10.03
Interim dividends	(110.58)	-	n.a.
Accumulated other comprehensive income	17.84	(68.00)	n.a.
Items that will not be reclassified to profit or loss	(13.91)	1.79	n.a.
Actuarial gains or losses on defined benefit pension plans	(13.91)	1.79	n.a.
Items that may be reclassified to profit or loss	31.75	(69.79)	n.a.
Translation of foreign currency	0.02	(0.03)	n.a.
Hedging derivatives Cash flow edges (effective portion)	(47.84)	(44.64)	7.17
Available-for-sale financial assets	90.09	(22.29)	n.a.
Debt instruments	66.86	(19.19)	n.a.
Equity instruments	23.22	(3.10)	n.a.
Share of other recognised income and expense arising from investments in joint ventures and associates	(10.51)	(2.84)	270.07
Minority interests (non-controlling interests)	0.01	(0.01)	n.a.
Accumulated other comprehensive income	-	-	-
Other items	0.01	(0.01)	n.a.
TOTAL EQUITY	4,105.38	4,083.19	0.54
TOTAL LIABILITIES AND EQUITY	50,784.35	45,138.41	12.51

(*) In 2017, certain financial information relating to the year ended 31 December 2016 was restated in the 2017 Consolidated Annual Accounts in order to present the 2016 financial information in a comparable manner to the classification in the 2017 Consolidated Annual Accounts. Investments on account of third parties have been classified under the caption "Other Assets at Fair Value" in the 2017 Consolidated Annual Accounts while in the 2016 Consolidated Annual Accounts they were included under the caption "Other Financial Assets". In addition, certain liabilities were also restated. Provisions for accounting mismatches have been classified under the caption "Liabilities covered by insurance or reinsurance contract" in the 2017 Consolidated Annual Accounts while in the 2016 Consolidated Annual Accounts they were included under the caption "Other financial liabilities". Accordingly, the 2016 financial information included in this Prospectus differs from that included in the 2016 Consolidated Annual Accounts.

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

	31/12/2017 (€ million)	31/12/2016 (€ million)	Var. 17-16 (%)
Interest Income	689.79	673.86	2.36
Interest Expense	(201.29)	(265.94)	(24.31)
Net interest income	488.50	407.92	19.75
Dividend Income	10.71	19.60	(45.36)
Share of profit or loss of equity-accounted investees	7.42	6.41	15.76
Fee and Commission Income	189.91	167.59	13.32
Fee and Commission Expense	(20.15)	(15.77)	27.77
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	199.78	85.88	132.63
Gains or losses on financial assets and liabilities held for trading, net	4.58	9.22	(50.33)
Gains or losses on hedge accounting, net	(2.20)	(2.33)	(5.58)
Exchange differences, net	2.35	8.87	(73.51)
Other operating income	61.84	65.51	(5.60)
Other operating expenses	(144.93)	(105.64)	37.19
Income from assets covered by insurance or reinsurance contracts	268.13	224.31	19.54
Expenses from liabilities covered by insurance or reinsurance contracts	(254.79)	(216.53)	17.67
Gross margin	811.15	655.04	23.83
Administrative expenses	(509.78)	(472.35)	7.92
Personnel expenses	(315.00)	(286.99)	9.76
Other administrative expenses	(194.79)	(185.36)	5.09
Depreciation and amortisation	(48.81)	(46.77)	4.36
Provisions or reversals of provisions	(22.41)	13.09	n.a.
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	76.29	140.93	(45.87)
Available-for-sale financial assets	(1.99)	(6.53)	(69.53)
Loans and receivables	78.28	147.45	(46.91)
Net operating income	306.44	289.93	5.69
Impairment or reversal of impairment on investments in joint ventures or associates	(1.44)	(4.93)	(70.79)
Impairment or reversal of impairment on non-financial assets	0.29	(4.53)	n.a.
Tangible assets	0.70	(4.53)	n.a.
Intangible assets	(0.41)	-	n.a.
Others	(0.00)	-	-
Gains or losses on the derecognition of non-financial assets and investments, net	24.75	101.63	(75.65)
Negative goodwill recognised in profit or loss	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	38.13	(23.32)	n.a.
Profit or loss before tax from continuing operations	368.16	358.78	2.61
Income tax expense or income related to profit or loss from continuing operations	(1.09)	(25.17)	(95.67)
Profit or loss after taxes from continuing operations	367.07	333.61	10.03
Profit or loss after tax from discontinued operations	-	-	-
Profit for the year	367.07	333.61	10.03
Attributable to minority interests (non-controlling interests)	(0.00)	(0.01)	(100.00)
Attributable to the owners of the Parent	367.07	333.62	10.03
Earnings per share (euros)			
Basic	0.1639	0.1490	10.00
Diluted	0.1639	0.1490	10.00

The table below includes the consolidated balance sheets of the ABANCA Group as of 30 June 2018 and 31 December 2017:

ASSETS	30/06/2018 (€ million)	31/12/2017 ^(*) (€ million)	Var. (%)
Cash, cash balances with central banks and other demand deposits (<i>Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista</i>)	771.74	1,701.99	(54.66)
Financial assets held for trading (<i>Activos financieros mantenidos para negociar</i>)	113.68	100.32	13.32
Non-trading financial assets required to be measured at fair value through profit or loss (<i>Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados</i>)	625.28	-	n.a.
Financial assets at fair value through profit or loss /Financial assets designated at fair value through profit or loss (<i>Activos financieros designados a valor razonable con cambios en resultados</i>)	-	37.89	(100.00)
Financial assets at fair value through other comprehensive income / Available-for-sale financial assets (<i>Activos financieros a valor razonable con cambios en resultado global</i>)	7,547.57	9,787.53	(22.89)
Financial assets at amortised cost / Loans and receivables (<i>Activos financieros a coste amortizado</i>)	34,845.53	33,195.41	4.97
Derivatives - hedge accounting (<i>Derivados - contabilidad de coberturas</i>)	16.60	32.01	(48.14)
Investments in joint ventures or associates (<i>Inversiones en negocios conjuntos y asociadas</i>)	166.76	158.55	5.18
Associates (<i>Entidades asociadas</i>)	166.76	158.55	5.18
Assets covered by insurance or reinsurance contracts (<i>Activos amparados por contratos de seguro o reaseguro</i>)	6.85	6.02	13.79
Tangible assets (<i>Activos tangibles</i>)	1,143.90	1,117.59	2.35
Fixed assets (<i>Inmovilizado material</i>)	863.43	838.96	2.92
For own use (<i>De uso propio</i>)	863.43	838.96	2.92
Investment property (<i>Inversiones inmobiliarias</i>)	280.48	278.63	0.66
Intangible assets (<i>Activos intangibles</i>)	363.70	368.71	(1.36)
Goodwill (<i>Fondo de comercio</i>)	61.73	61.73	-
Other intangible assets (<i>Otros activos intangibles</i>)	301.97	306.98	(1.63)
Tax assets (<i>Activos por impuestos</i>)	3,418.58	3,408.74	0.29
Current tax assets (<i>Activos por impuestos corrientes</i>)	75.19	118.52	(36.56)
Deferred tax assets (<i>Activos por impuestos diferidos</i>)	3,343.39	3,290.22	1.62
Other assets (<i>Otros activos</i>)	349.90	371.78	(5.89)
Insurance contracts linked to pensions (<i>Contratos de seguros vinculados a pensiones</i>)	149.00	149.00	-
Inventories (<i>Existencias</i>)	56.72	63.50	(10.68)
Other assets (<i>Resto de los otros activos</i>)	144.18	159.27	(9.47)
Non-current assets and disposal groups classified as held for sale (<i>Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta</i>)	438.96	497.82	(11.82)
TOTAL ASSETS (TOTAL ACTIVO)	49,809.06	50,784.35	(1.92)
LIABILITIES AND EQUITY			
Financial liabilities held for trading (<i>Pasivos financieros mantenidos para negociar</i>)	84.49	84.89	(0.47)
Financial liabilities at amortised cost (<i>Pasivos financieros a coste amortizado</i>)	43,215.19	44,326.34	(2.51)
Derivatives - hedge accounting (<i>Derivados - contabilidad de coberturas</i>)	107.19	88.20	21.53
Liabilities covered by insurance or reinsurance contracts (<i>Pasivos amparados por contratos de seguro o reaseguro</i>)	1,339.26	1,249.52	7.18

Provisions (Provisiones)	403.19	409.68	(1.58)
Pensions and other post-employment defined benefit obligations (<i>Pensiones y otras obligaciones de prestaciones definidas post-empleo</i>)	172.55	176.78	(2.39)
Outstanding legal proceedings and litigation in relation to taxes (<i>Cuestiones procesales y litigios por impuestos pendientes</i>)	12.91	2.28	466.23
Commitments and guarantees extended (<i>Compromisos y garantías concedidos</i>)	89.22	75.67	17.91
Other provisions (<i>Restantes provisiones</i>)	128.50	154.95	(17.07)
Tax liabilities (Pasivos por impuestos)	230.50	242.59	(4.98)
Current tax liabilities (<i>Pasivos por impuestos corrientes</i>)	31.86	17.39	83.21
Deferred tax liabilities (<i>Pasivos por impuestos diferidos</i>)	198.65	225.20	(11.79)
Other liabilities (Otros pasivos)	268.75	277.75	(3.24)
TOTAL LIABILITIES (TOTAL PASIVO)	45,648.57	46,678.97	(2.21)
NET EQUITY			
SHAREHOLDERS' EQUITY (FONDOS PROPIOS)	4,220.97	4,087.53	3.26
Capital (Capital)	2,453.66	2,453.66	-
Paid-up capital (<i>Capital desembolsado</i>)	2,453.66	2,453.66	-
Share premium (Prima de emisión)	433.90	433.90	-
Retained earnings (Ganancias acumuladas)	1,392.71	1,180.24	18.00
Other reserves /Accumulated reserves or losses on investments in joint ventures and associates (Otras reservas)	(17.36)	(9.82)	76.78
Treasury shares (Acciones propias)	(226.85)	(226.94)	(0.04)
Profit attributable to the owners of the parent (Resultado atribuible a los propietarios de la dominante)	247.00	367.07	(32.71)
Interim dividends (Dividendos a cuenta)	(62.10)	(110.58)	(43.84)
ACCUMULATED OTHER COMPREHENSIVE INCOME (OTRO RESULTADO GLOBAL ACUMULADO)	(60.49)	17.84	n.a.
Items that will not be reclassified to profit or loss (Elementos que no se reclasificarán en resultados)	(14.19)	(13.91)	2.01
Actuarial gains or (-) losses on defined benefit pension plans (<i>Ganancias o (-) pérdidas actuariales en planes de pensiones de prestaciones definidas</i>)	(13.91)	(13.91)	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (<i>Cambios del valor razonable de los instrumentos de patrimonio valorados a valor razonable con cambios en otro resultado global</i>)	(0.28)	-	n.a.
Items that may be reclassified to profit or loss (Elementos que pueden reclasificarse en resultados)	(46.30)	31.75	n.a.
Translation of foreign currency (<i>Conversión de divisas</i>)	0.00	0.02	(100.00)
Hedging derivatives Cash flow hedges (effective portion) (<i>Derivados de cobertura. Coberturas de flujos de efectivo (porción efectiva)</i>)	(42.57)	(47.84)	(11.02)
Changes in fair value of debt securities measured at fair value through other comprehensive income /Available-for-sale financial assets (<i>Cambios del valor razonable de los instrumentos de deuda valorados a valor razonable con cambios en otro resultado global</i>)	4.83	90.09	(94.64)
Share of other recognised income and expense arising from investments in joint ventures and associates (<i>Participación en otros ingresos y gastos reconocidos de inversiones en negocios conjuntos y asociadas</i>)	(8.55)	(10.51)	(18.65)
MINORITY INTERESTS (non-controlling interests) (INTERESES MINORITARIOS (participaciones no dominantes))	0.01	0.01	-
Accumulated other comprehensive income (<i>Otro resultado global acumulado</i>)	-	-	-
Other items (<i>Otros elementos</i>) ^o	0.01	0.01	-
TOTAL EQUITY (TOTAL PATRIMONIO NETO)	4,160.49	4,105.38	1.34

TOTAL LIABILITIES AND EQUITY (TOTAL PATRIMONIO NETO Y PASIVO)	49,809.06	50,784.35	(1.92)
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(*) Figures of the consolidated annual accounts, under IAS 39, presented, solely and exclusively, for comparative purposes.

The table below includes the consolidated income statements of the ABANCA Group for the six-month periods ended 30 June 2018 and 2017:

	30/06/2018 (€ million)	30/06/2017(*) (€ million)	Var. 18-17 (%)
Interest Income (<i>Ingresos por intereses</i>)	347.96	336.18	3.50
Interest Expense (<i>Gastos por intereses</i>)	(90.19)	(103.86)	(13.16)
NET INTEREST INCOME (MARGEN DE INTERESES)	257.77	232.32	10.95
Dividend Income (<i>Ingresos por dividendos</i>)	8.64	8.56	0.93
Share of profit or loss of equity-accounted Investees (<i>Resultados de entidades valoradas por el método de la participación</i>)	4.98	4.65	7.10
Fee and Commission Income (<i>Ingresos por comisiones</i>)	97.89	95.63	2.36
Fee and Commission Expense (<i>Gastos por comisiones</i>)	(9.71)	(8.08)	20.17
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (<i>Ganancias o pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas</i>)	98.99	176.56	(43.93)
Gains or losses on financial assets and liabilities held for trading, net (<i>Ganancias o pérdidas por activos y pasivos financieros mantenidos para negociar, netas</i>)	(1.30)	2.81	n.a.
Gains or losses on non-trading financial assets required to be measured at fair value through profit or loss, net (<i>Ganancias o pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas</i>)	10.45	-	n.a.
Gains or losses on hedge accounting, net (<i>Ganancias o pérdidas resultantes de la contabilidad de coberturas, netas</i>)	(0.08)	0.94	n.a.
Exchange differences, net (<i>Diferencias de cambio, netas</i>)	1.81	1.15	57.39
Other operating income (<i>Otros ingresos de explotación</i>)	47.36	24.36	94.42
Other operating expenses (<i>Otros gastos de explotación</i>)	(43.48)	(68.46)	(36.49)
Income from assets covered by insurance or reinsurance contracts (<i>Ingresos de activos amparados por contratos de seguro o reaseguro</i>)	160.32	49.17	226.05
Expenses from liabilities covered by insurance or reinsurance contracts (<i>Gastos de pasivos amparados por contratos de seguro o reaseguro</i>)	(150.39)	(45.71)	229.01
GROSS INCOME (MARGEN BRUTO)	483.25	473.92	1.97
Administrative expenses (<i>Gastos de administración</i>)	(251.73)	(239.67)	5.03
Personnel expenses (<i>Gastos de personal</i>)	(153.88)	(151.66)	1.46
Other administrative expenses (<i>Otros gastos de administración</i>)	(97.86)	(88.01)	11.19
Depreciation and amortisation (<i>Amortización</i>)	(25.73)	(24.09)	6.81
Provisions or reversals of provisions (<i>Provisiones o reversión de provisiones</i>)	0.72	(1.13)	n.a.
Impairment or reversal of impairment on, and gains and losses arising from changes in cash flows from financial assets not measured at fair value through profit or loss and net gains or losses arising from changes (<i>Deterioro del valor o reversión del deterioro del valor y ganancias o pérdidas por modificaciones de flujos de caja de activos financieros no valorados a valor razonable con cambios en resultados y pérdidas o ganancias netas por modificación</i>)	1.56	35.44	(95.60)
Financial assets at fair value through other comprehensive income (<i>Activos financieros a valor razonable con cambios en otro resultado global</i>)	(2.04)	(1.99)	2.51
Financial assets at amortised cost (<i>Activos financieros a coste amortizado</i>)	3.60	37.44	(90.38)
RESULTS FROM OPERATING ACTIVITIES (RESULTADO DE LA ACTIVIDAD DE EXPLOTACIÓN)	208.07	244.47	(14.89)
Impairment or reversal of impairment on investments in joint ventures or associates (<i>Deterioro del valor o reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas</i>)	0.67	-	n.a.
Impairment or reversal of impairment on non-financial assets (<i>Deterioro del valor o reversión del deterioro del valor de activos no financieros</i>)	(0.45)	(1.94)	(76.80)
Other (<i>Otros</i>)	0.10	-	n.a.
Tangible assets (<i>Activos tangibles</i>)	(0.55)	(1.94)	(71.65)
Gains or losses on derecognition of non-financial assets, net (<i>Ganancias o pérdidas al dar de baja en cuentas activos no financieros, netas</i>)	15.67	0.85	1743.53
Negative goodwill recognised in profit or loss (<i>Fondo de comercio negativo reconocido en resultados</i>)	-	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (<i>Ganancias o pérdidas procedentes de activos no corrientes y grupos enajenables de elementos</i>)	23.40	20.98	11.53

<i>clasificados como mantenidos para la venta no admisibles como actividades interrumpidas)</i>			
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (GANANCIAS O PÉRDIDAS ANTES DE IMPUESTOS PROCEDENTES DE LAS ACTIVIDADES CONTINUADAS)	247.36	264.36	(6.43)
Income tax expense or income related to profit or loss from continuing operations (<i>Gastos o ingresos por impuestos sobre los resultados de las actividades continuadas</i>)	(0.36)	(35.28)	(98.98)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (GANANCIAS O PÉRDIDAS DESPUÉS DE IMPUESTOS PROCEDENTES DE LAS ACTIVIDADES CONTINUADAS)	247.00	229.07	7.83
Profit or loss after tax from discontinued operations (<i>Ganancias o pérdidas después de impuestos procedentes de actividades interrumpidas</i>)	-	-	-
PROFIT/(LOSS) FOR THE PERIOD (RESULTADO DEL PERÍODO)	247.00	229.07	7.83
Attributable to minority interests (non-controlling interests) (<i>Atribuible a intereses minoritarios (participaciones no dominantes)</i>)	-	(0.00)	-
Attributable to the owners of the parent (<i>Atribuible a los propietarios de la dominante</i>)	247.00	229.08	7.82
EARNINGS PER SHARE (EUROS) (BENEFICIO POR ACCIÓN)			
Basic (<i>Básico</i>)	0.1104	0.1028	7.39
Diluted (<i>Diluido</i>)	0.1104	0.1028	7.39

(*) Figures of the consolidated annual accounts, under IAS 39, presented, solely and exclusively, for comparative purposes.

Financial information of the ABANCA Holding Group

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

ASSETS	31/12/2017 (€ million)	31/12/2016* (€ million)	Var. 17-16 (%)
Cash, cash balances with central banks and other demand deposits	1,702.05	497.99	241.78
Financial assets held for trading	104.22	157.64	(33.89)
Derivatives	100.32	141.05	(28.88)
Debt securities	3.90	16.59	(76.49)
Financial assets designated at fair value through profit or loss	37.89	33.32	13.72
Equity instruments	33.77	29.07	16.17
Debt securities	4.12	4.24	(2.83)
Available-for-sale financial assets	9,788.48	7,319.20	33.74
Equity instruments	494.37	737.18	(32.94)
Debt securities	9,294.11	6,582.01	41.20
Loans and receivables	33,204.38	31,229.07	6.33
Debt securities	3,539.90	3,734.50	(5.21)
Loans and advances			
Credit institutions	535.24	302.01	77.23
Customers	29,129.24	27,192.55	7.12
Held-to-maturity investments	-	-	-
Derivatives – hedge accounting	32.01	57.92	(44.73)
Investments in joint ventures and associates	162.76	190.68	(14.64)
Associates	162.76	190.68	(14.64)
Assets covered by insurance or reinsurance contracts	6.02	4.77	26.21
Tangible assets	1,069.50	1,066.95	0.24
Fixed assets			
For own use	772.48	805.91	(4.15)
Investment property	297.02	261.04	13.78
Intangible assets	529.01	569.78	(7.16)
Goodwill	61.73	48.10	28.34
Other intangible assets	467.28	521.68	(10.43)

Tax assets	3,455.99	3,473.42	(0.50)
Current tax assets	114.23	108.05	5.72
Deferred tax assets	3,341.76	3,365.37	(0.70)
Other assets	371.78	355.33	4.63
Insurance contracts linked to pensions	149.00	150.93	(1.28)
Inventories	63.50	62.27	1.98
Other assets	159.27	142.14	12.05
Non-current assets and disposal groups classified as held for sale	592.12	629.25	(5.90)
TOTAL ASSETS	51,056.22	45,585.30	12.00
LIABILITIES AND EQUITY			
Financial liabilities held for trading	84.89	116.62	(27.21)
Derivatives	84.89	116.62	(27.21)
Financial liabilities at amortised cost	44,615.22	39,259.82	13.64
Deposits			
Central banks	3,449.92	1,700.00	102.94
Credit institutions	4,290.97	2,278.12	88.36
Customers	35,730.97	33,806.36	5.69
Debt securities issued	995.16	1,026.50	(3.05)
Other financial liabilities	148.20	448.84	(66.98)
<i>Memorandum items subordinated liabilities</i>	8.57	8.86	(3.27)
Derivatives – hedge accounting	88.20	149.48	(41.00)
Liabilities covered by insurance or reinsurance contracts	1,249.52	1,147.11	8.93
Provisions	410.88	540.09	(23.92)
Pensions and other post-employment defined benefit obligations	176.78	190.60	(7.25)
Outstanding legal proceedings and litigation in relation to taxes	2.28	2.61	(12.64)
Commitments and guarantees extended	75.67	79.38	(4.67)
Other provisions	156.15	267.50	(41.63)
Tax liabilities	319.17	343.73	(7.15)
Current tax liabilities	10.54	5.53	90.60
Deferred tax liabilities	308.63	338.20	(8.74)
Other liabilities	277.84	223.58	24.27
TOTAL LIABILITIES	47,045.72	41,780.42	12.60
EQUITY			
Shareholders' equity			
Capital			
Paid-in capital	368.86	368.86	-
Share premium	7.71	7.71	-
Retained earnings	3,296.99	3,106.29	6.14
Other reserves			
Accumulated reserves or losses on investments in joint ventures and associates	(9.82)	(40.50)	(75.75)
Treasury shares	-	-	-
Profit attributable to the owners of the Parent	288.60	269.46	7.10
Interim dividend	(130.68)	(45.00)	190.40
Accumulated other comprehensive income	(13.57)	(68.39)	(80.16)
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on defined benefit pension plans	(13.24)	1.70	n.a
Items that may be reclassified to profit or loss			
Translation of foreign currency	0.02	(0.03)	n.a
Hedging derivatives. Cash flow hedges (effective portion)	(45.52)	(42.46)	7.21
Available-for-sale financial assets	55.17	(24.91)	n.a
Debt instruments	63.63	(18.25)	n.a
Equity instruments	(8.45)	(6.66)	26.88
Share of other recognised income and expense arising from investments in joint ventures and associates	(10.00)	(2.70)	270.37
Minority interests (non-controlling interests)	202.41	206.46	(1.96)
Accumulated other comprehensive income	(0.69)	(3.51)	(80.34)
Other items	203.10	209.97	(3.27)

TOTAL EQUITY	4,010.50	3,804.88	5.40
TOTAL LIABILITIES AND EQUITY	51,056.22	45,585.30	12.00

(*) In 2017, certain financial information relating to the year ended 31 December 2016 was restated in the ABANCA Holding Group's audited consolidated annual accounts as of and for the year ended 31 December 2017 in order to present the 2016 financial information in a comparable manner to the classification in the audited consolidated annual accounts as of and for the year ended 31 December 2017. Investments on account of third parties have been classified under the caption "Other Assets at Fair Value" in 2017 while in 2016 they were included under the caption "Other Financial Assets". In addition, certain liabilities were also restated. Provisions for accounting mismatches have been classified under the caption "Liabilities covered by insurance or reinsurance contract" in 2017 while in 2016 they were included under the caption "Other financial liabilities". Accordingly, the 2016 financial information included in this Prospectus differs from that included in the ABANCA Holding Group's audited consolidated annual accounts as of and for the year ended 31 December 2016.

The table below includes the consolidated income statements of the ABANCA Holding Group as of 31 December 2017 and 2016:

	31/12/2017 (€ million)	31/12/2016 (€ million)	Var. 17-16 (%)
Interest income	689.62	673.95	2.33
Interest expenses	(185.26)	(272.62)	(32.04)
NET INTEREST INCOME	504.37	401.33	25.67
Dividend income	10.71	19.60	(45.36)
Share of profit or loss of equity-accounted investees	7.42	6.41	15.76
Fee and commission income	189.91	167.59	13.32
Fee and commission expense	(20.18)	(15.82)	27.56
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	156.79	13.65	1,048.64
Gains or losses on financial assets and liabilities held for trading, net	4.58	9.46	(51.59)
Gains or losses on hedge accounting, net	(2.20)	(2.33)	(5.58)
Exchange differences, net	2.33	8.88	(73.76)
Other operating income	62.24	65.51	(4.99)
Other operating expenses	(145.26)	(105.64)	37.50
Income from assets covered by insurance or reinsurance contracts	268.13	224.31	19.54
Expenses from liabilities covered by insurance or reinsurance contracts	(254.79)	(216.53)	17.67
GROSS MARGIN	784.05	576.41	36.02
Administrative expenses	(510.86)	(473.53)	7.88
Personnel expenses	(315.28)	(287.26)	9.75
Other administrative expenses	(195.58)	(186.27)	5.00
Depreciation and amortisation	(92.56)	(91.62)	1.03
Provisions or reversals of provisions	(22.14)	13.38	n.a.
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	76.29	140.93	(45.87)
Available-for-sale financial assets	(1.99)	(6.53)	(69.53)
Loans and receivables	78.28	147.45	(46.91)
NET OPERATING INCOME	234.77	165.56	41.80
Impairment or reversal of impairment on investments in joint ventures or associates	(1.59)	(4.93)	(67.75)
Impairment or reversal of impairment on non-financial assets	0.29	(4.53)	n.a.
Tangible assets	0.70	(4.53)	n.a.
Intangible assets	(0.41)	-	n.a.
Others	0.00	-	-
Gains or losses on derecognition of non-financial assets and investments, net	24.75	100.23	(75.31)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	20.18	(30.05)	n.a.
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	278.40	226.28	23.03
Income tax expense or income related to profit or loss from continuing operations	25.73	59.07	(56.44)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	304.13	285.35	6.58

Profit or loss after tax from discontinued operations	-	-	-
PROFIT FOR THE YEAR	304.13	285.35	6.58
Attributable to minority interests (non-controlling interests)	15.54	15.89	(2.20)
Attributable to the owners of the Parent	288.60	269.46	7.10
EARNINGS PER SHARE (EUROS)			
Basic	0.7824	0.7305	7.10
Diluted	0.7824	0.7305	7.10

Distributable Items

The following table shows the Distributable Items of ABANCA as of 31 December 2016 and 31 December 2017:

	31/12/2017	31/12/2016
	(€)	
Distributable items of the Bank	790,399,054.59	924,426,513.87

Credit ratings

As of the date of this Prospectus, ABANCA has been assigned the following ratings by the following credit rating agencies:

Agency	Review date	Short-term rating	Long-term rating	Outlook
Moody's	May 2018	NP	Ba2	Positive
S&P	April 2018	B	BB	Positive
Fitch	March 2018	B	BB+	Positive
DBRS	July 2018	R-2 (middle)	BBB (low)	Positive

Each of Moody's Investors Service España, S.A., Standard & Poor's Credit Market Services Europe Limited, Fitch and DBRS Ratings Limited is a rating agency established in the EU and registered under the CRA Regulation. A list of registered credit rating agencies is published at the ESMA's website: www.esma.europa.eu.

Alternative Performance Measures

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

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

Furthermore, these APMs, as used by ABANCA, may not be comparable to other similarly titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS-EU, as indications of operating performance or as measures of the ABANCA Group's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with

IFRS-EU and investors are advised to review these APMs in conjunction with the audited consolidated annual accounts incorporated by reference in this Prospectus.

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

The following are the APMs used in this Prospectus.

Average Total Assets ("ATA"): simple average of the consolidated total assets of all the quarterly balance sheets of the current fiscal year (including that corresponding to the month of December of the previous year) as semi-sum of the extremes. Averages are used to see how a specific variable performs in a period of time, beyond a particular moment.

		June 2018	December 2017 (€ million)	December 2016
Numerator	1/2 Dec year-1 Total assets	50,784.35	45,138.41	47,266.55
	+ Mar year Total assets	48,828.37	48,482.92	48,643.00
	+ Jun year Total assets ^(*)	49,809.06	49,321.79	48,326.17
	+ Sep year Total assets	-	49,953.62	48,442.22
	+1/2 Dec year Total assets	-	50,784.35	45,138.41
Denominator	4 or 2 (depending on the date)	2	4	4
ATA		49,562.54	48,929.93	47,903.47

(*) 1/2 for the June 2018 calculation.

Source: ABANCA's internal information with management criteria.

Assets under Management ("AuMs"): comprises those balances of clients that, not being within the balance sheet of the entity, are managed by the same so that the client obtains a certain profitability. This category groups the Investment Funds, Pension Plans and Savings Insurance.

		June 2018	December 2017 (€ million)	December 2016
	Investment funds	4,011.59	3,632.21	2,497.46
Plus	Pension funds	1,404.90	1,402.99	1,333.15
Plus	Insurance products	1,157.22	1,088.55	966.86
AuMs		6,573.70	6,123.75	4,797.46

Cost to income ratio: operating expenditure divided by gross income. This ratio is relevant because it shows the gap between recurrent income and expenses.

		June 2018	December 2017 (€ million, except %)	December 2016
Numerator	+ Administrative expenses	251.73	509.78	472.35
	+ Depreciation and amortisation	25.73	48.81	46.77
Denominator	Gross Margin/Gross Income	483.25	811.15	655.04
Cost to income ratio		57.4%	68.9%	79.2%

Coverage of NPL on loans to real-estate developers: a relevant indicator of asset quality in the banking sector that shows the level of impairment that the entity has already absorbed into its profit and loss accounts in respect of the total loans to real estate developers classified as non performing.

		June 2018	December 2017 (€ million, except %)	December 2016
Numerator	Accumulated impairment of financing of real estate construction and property development	41.9	35.8	54.3
Denominator	Non performing loans of financing of real estate construction and property development	64.9	58.6	79.8
Coverage of NPL on loans to real-estate developers		64.5%	61.0%	68.1%

Customer spread ratio: difference between the average yield on the performing loan portfolio and the cost of retail deposits (demand and term). This APM is an indicator of profitability and measures the difference between the average yield on the performing loan portfolio and the cost of retail deposits.

		June 2018	December 2017 (%)	December 2016
	Yield on performing loan to customers (rate) ^(*)	1.79	1.76	1.79
Minus	Cost of retail funds (rate) ^(**)	0.08	0.07	0.16
	Customer spread ratio	1.71	1.69	1.63

(*) Interest income from the portfolio of loans to customers, with management criteria, divided by the average balance of loans to customers.

(**) Interest expenses on retail deposits on the balance sheet, with management criteria, divided by the average balance of retail deposits.

Foreclosed assets coverage ratio: foreclosed impairment in respect of foreclosed assets¹. This is currently a very relevant indicator in the banking sector and it shows the level of impairment that the entity has already absorbed into its profit and loss accounts in respect of the total of foreclosed assets. This ratio is used by the ABANCA Group to measure the coverage foreclosed assets and it is also an indication of asset quality.

		June 2018	December 2017 (€ million, except %)	December 2016
Numerator	Impairment losses of assets foreclosed or received in payment of debt	564.71	616.26	671.67
Denominator	Gross assets foreclosed or received in payment of debt	922.76	1,008.88	1,090.28
	Foreclosed assets coverage ratio	61.2%	61.1%	61.6%

Foreclosed Assets over Total Assets ratio: reflects the weight of assets received in payment of debts over the total balance sheet of the entity. This APM is an indicator of asset quality and shows the weight of assets received in payment of debts over total assets of the ABANCA Group.

		June 2018	December 2017 (€ million, except %)	December 2016
Numerator	Net assets foreclosed or received in payment of debt	358.04	392.62	418.61
Denominator	Total assets	49,809.06	50,784.35	45,138.41
	Foreclosed Assets over Total Assets ratio	0.7%	0.8%	0.9%

Foreclosed land assets coverage ratio: foreclosed impairment in respect of foreclosed assets that are classified, according to their nature, as land. This shows the level of impairment that the entity has already absorbed into its profit and loss accounts in respect of the total land foreclosed. This ratio is used by the ABANCA Group to measure the coverage foreclosed assets with the status of land and it is also an indication of asset quality.

		June 2018	December 2017 (€ million, except %)	December 2016
Numerator	Impairment losses of land foreclosed assets or received in payment of debt	177.33	174.65	168.15
Denominator	Gross land foreclosed assets or received in payment of debt	230.49	231.47	222.41
	Foreclosed land assets coverage ratio	76.9%	75.5%	75.6%

¹ "Foreclosed assets" is equivalent to the item "assets foreclosed or received in payment of debt" of the balance sheet.

The next three APMs in their aggregate are the net of "Fees and commissions income" (€97.89 million as of 30 June 2018, €189.91 million as of 31 December 2017 and €167.59 million as of 31 December 2016) minus "Fees and commissions expenses" (€9.71 million as of 30 June 2018, €20.15 million as of 31 December 2017 and € 15.77 million as of 31 December 2016) amounting to net amounts of €88.18 million as of 30 June 2018, €169.76 million as of 31 December 2017 and €151.82 million as of 31 December 2016. These total amounts have been divided by ABANCA by three types following internal criteria based on the types of business the mentioned income and expenses refer to.

Income from Non-banking Products Commercialization: fee income minus expenses originated by the commercialization of products considered as AUMs. This APM is an indicator of profitability and measures the revenues from commissions originated by these value-added products.

	June 2018	December 2017 (€ million)	December 2016
Income from Non-banking Products Commercialization	27.99	52.14	43.28

Source: ABANCA's internal information with management criteria.

Income from Other Services Fees: other net commissions. Another indicator of profitability and measures the revenues from commissions originated by other services.

	June 2018	December 2017 (€ million)	December 2016
Income From Other Services Fees	27.88	49.50	49.66

Source: ABANCA's internal information with management criteria.

Income from Payments and Other Services Fees: fee income minus expenses associated with typical bank activity. This APM is also an indicator of profitability and measures the revenues from commissions originated by banking services.

	June 2018	December 2017 (€ million)	December 2016
Income from Payments and Other Services Fees	32.31	68.13	58.88

Source: ABANCA's internal information with management criteria.

Liquid assets: assets of a high quality, liquid, unencumbered and available that the Entity has in order to face possible liquidity stress events. They are specified in the available balance of the policy held by the Entity in the European Central Bank plus the balance of the discountable liquid assets that are not assigned nor pledged and, therefore, available, plus the balance in cash and the balance in central banks; as well as the balance of other assets, not discountable, but liquid and available. It is used by the ABANCA Group to show the assets the ABANCA Group could use to face a sudden outflow of customer funds.

	June 2018	December 2017 (€ million)	December 2016
Cash and central bank accounts	680.1	1,319.3	379.8
Plus Collateral available for ECB operations	2,376.1	2,450.3	3,431.9
Plus Collateral available for ECB operations outside of ECB guarantee pool	2,260.6	2,081.9	3,363.3
Plus Other marketable assets non eligible for ECB	101.6	93.1	83.6
Liquid assets	5,418.3	5,944.7	7,258.6

Source: ABANCA's internal information with management criteria.

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

		June 2018	December 2017	December 2016
			(<i>€ million, except %</i>)	
Numerator	Net loans and advances to customers	30,301.34	29,120.27	27,182.08
Denominator	Net deposits from customers	35,889.03	35,647.69	33,683.83
	Loan to Deposit (LtD) ratio	84.4%	81.7%	80.7%

Net Interest Income ("NII"): difference between interest income from loans and other interest-earning assets and interest expense paid to depositors and other creditors on interest-bearing liabilities. This APM reflects the result of the banking activity of an entity.

		June 2018	December 2017	December 2016
			(<i>€ million</i>)	
	Interest income	347.96	689.79	673.86
Minus	Interest expense	90.19	201.29	265.94
	Net Interest Income	257.77	488.50	407.92

Net fees and commissions: fees and commission income minus fee and commission expenses. This APM is an indicator of profitability and measures the margin obtained with respect to the fees and commissions.

		June 2018	December 2017	December 2016
			(<i>€ million</i>)	
	Fee and commission income	97.89	189.91	167.59
Minus	Fee and commission expense	9.71	20.15	15.77
	Net fees and commissions	88.18	169.76	151.82

Non-performing Assets ("NPA"): sum of the total non-performing loans and the gross foreclosed assets. The sum of these two masses shows the total volume of unproductive assets that an entity has in its balance sheet. This APM is an indicator of asset quality and shows the size of the non-productive assets portfolio understood as non-performing loans plus foreclosed assets.

		June 2018	December 2017	December 2016
			(<i>€ million</i>)	
	Impaired assets in loans and advances to customers	1,400.56	1,541.35	2,153.21
Plus	Gross assets foreclosed or received in payment of debt	922.76	1,008.88	1,090.28
	NPA	2,323.32	2,550.23	3,243.48

NII over ATA: this APM reflects the result of the banking activity of an entity through a period. This ratio shows the NII obtained in a period over the average assets of the entity during the same period.

		June 2018	December 2017	December 2016
			(<i>€ million, except %</i>)	
Numerator	Net interest income (*)	257.77	488.50	407.92
Denominator	ATA	49,562.54	48,929.93	47,903.47
	NII over Average total assets	1.0%	1.0%	0.9%

(*) Numerator calculated as "Net interest income" at 30 June 2018 multiplied by 2.

NPA coverage ratio: accumulated impairment of foreclosed assets plus impairment losses on loans and advances to customers divided by gross non-performing assets (non-performing loans plus gross foreclosed assets). This ratio is used by the ABANCA Group to measure the coverage ratio of non-performing assets and it is also an indication of asset quality.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Impairment losses of loans and advances to customers	751.16	795.12	1,078.91
	+ Impairment losses of assets foreclosed or received in payment of debt	564.71	616.26	671.67
Denominator	Impaired assets in loans and advances to customers	1,400.56	1,541.35	2,153.21
	+ Gross assets foreclosed or received in payment of debt	922.76	1,008.88	1,090.28
NPA coverage ratio		56.6%	55.3%	54.0%

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

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	NPA	2,323.32	2,550.23	3,243.48
Denominator	Gross loans and advances to customers	31,070.52	29,938.05	28,281.09
	- Repurchase agreements	-	451.27	-
	- Extraordinary activities	443.16	374.14	525.43
	+ Gross assets foreclosed or received in payment of debt	922.76	1,008.88	1,090.28
NPA ratio		7.4%	8.5%	11.2%

NPL coverage ratio: loan impairment in respect of NPLs. This is currently one of the most relevant indicators in the banking sector and it shows the level of credit provisions that the entity has already absorbed into its profit and loss accounts in respect of the total of impaired loans.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Impairment losses of loans and advances to customers	751.16	795.12	1,078.91
Denominator	Impaired assets in loans and advances to customers	1,400.56	1,541.35	2,153.21
NPL coverage ratio		53.6%	51.6%	50.1%

NPL ratio: NPL loans in respect of gross customer loans (for calculation purposes, the amounts corresponding to extraordinary activities of loans and advances to customers are eliminated from the denominator). This is currently one of the most relevant indicators in the banking sector and it shows the quality of the credit investment of the entity insofar as it reflects the level of impaired loans in respect of the total volume of loans.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Impaired assets in loans and advances to customers	1,400.56	1,541.35	2,153.21
Denominator	Gross loans and advances to customers	31,070.52	29,938.05	28,281.09
	- Repurchase agreements	-	451.27	-
	- Extraordinary activities	443.16	374.14	525.43
NPL ratio		4.6%	5.3%	7.8%

NPL ratio on loans to real-estate developers: indicates the level of loans to real estate developers that are classified as non performing. This sector is given special attention due to the impact it has had in the last financial crisis.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Non performing loans of financing of real estate construction and property development	64.9	58.6	79.8
Denominator	Total loans of financing of real estate construction and property development	767.2	670.5	521.9
	NPL ratio on loans to real-estate developers	8.5%	8.7%	15.3%

Operating expenditure over ATA: this APM reflects the level of expenses (or, at least, the most recurrents) of the banking activity of an entity through a period. This ratio shows the expenditure assumed in a period over the average assets of the entity during the same period.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator ^(*)	Administrative expenses + Depreciation and amortisation	251.73 25.73	509.78 48.81	472.35 46.77
Denominator	ATA	49,562.54	48,929.93	47,903.47
	Operating expenditure over ATA	1.1%	1.1%	1.1%

(*) Numerator calculated as ("Administrative expenses" + "Depreciation and amortisation") at 30 June 2018 multiplied by 2.

Performing Credit Portfolio: portfolio of loans granted by the entity that are not classified as NPL. It reflects the volume of credits for which the entity receives payments according to established schedules.

		June 2018	December 2017	December 2016
			<i>(€ million)</i>	
	Gross loans and advances to customers ^(*)	30,776.92	29,938.05	28,281.09
Minus	Repurchase agreements	-	451.27	-
Minus	Extraordinary activities	443.16	374.14	525.43
Minus	Impaired assets in loans and advances to customers	1,400.56	1,541.35	2,153.21
	Performing Credit Portfolio	28,933.19	27,571.30	25,602.45

(*) For the June 2018 calculation, Gross loans and advances to customers are adjusted by the advance to the Social Security due to the extra payment.

Recurring revenues: net interest income plus net fees and commission income. This APM is an indicator of profitability, it is used by the ABANCA Group to measure the evolution of the revenues more directly linked to the ABANCA Group's main activities (income from interests and commissions).

		June 2018	December 2017	December 2016
			<i>(€ million)</i>	
	Net interest income	257.77	488.50	407.92
Plus	Net fees and commissions	88.18	169.76	151.82
	Recurring revenues	345.95	658.25	559.74

Retail Business Volume: sum of the total of loans to customers, plus customer deposits and AUMs. This measure shows the level of business with customers that is under the entity's management.

		June 2018	December 2017	December 2016
			<i>(€ million)</i>	
	Net loans and advances to customers	30,301.34	29,120.27	27,182.08
Minus	Repurchase agreements	-	451.27	-
Plus	Gross deposits from customers	35,816.47	35,545.26	33,559.08
Minus	Assets acquired or sold under resale or repurchase agreements	1,364.96	2,388.56	987.37
Minus	Covered bond issues classified as deposits from customers	2,071.46	2,418.70	2,668.70
Plus	AUMs	6,573.70	6,123.75	4,797.46
	Retail Business Volume	69,255.09	65,530.76	61,882.54

Retail Business Volume per employee: sum of the total of loans to customers, plus customer deposits and AUMs, over the workforce associated to the banking activity. This measure shows the level of business with customers that is under banking employees' management.

		June 2018	December 2017	December 2016
			<i>(€ million)</i>	
Numerator	Net loans and advances to customers	30,301.34	29,120.27	27,182.08
	- Repurchase agreements	-	451.27	-
	+ Gross deposits from customers	35,816.47	35,545.26	33,559.08
	- Assets acquired or sold under resale or repurchase agreements	1,364.96	2,388.56	987.37
	- Covered bond issues classified as deposits from customers	2,071.46	2,418.70	2,668.70
	+ AUMs	6,573.70	6,123.75	4,797.46
Denominator	Employees of the Issuer (units)	4.305	4.137	4.032
	Retail Business Volume per employee	16.1	15.8	15.4

Retail Loan to Deposits (LtD) ratio: credit loans to retail customers in respect from deposits of retail customers. This is another relevant indicator in the banking sector due to it shows LtD ratio of the most stable clients.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Net loans and advances to customers	30,301.34	29,120.27	27,182.08
	- Repurchase agreements	-	451.27	-
Denominator	Gross deposits from customers	35,816.47	35,545.26	33,559.08
	- Assets acquired or sold under resale or repurchase agreements	1,364.96	2,388.56	987.37
	- Covered bond issues classified as deposits from customers	2,071.46	2,418.70	2,668.70
	Retail Loan to Deposits ratio	93.6%	93.3%	90.9%

Return on Average Equity ("ROE"): income to equity. This measure shows the level of profitability that the entity contributes to its shareholders.

		June 2018	December 2017	December 2016
			<i>(€ million, except %)</i>	
Numerator	Net profit ^(*)	247.00	367.07	333.61
Denominator	Average shareholder's equity ^(**)	4,172.58	4,038.09	4,031.98
	ROE	11.8%	9.1%	8.3%

(*) Numerator calculated as "Net profit" at 30 June 2018 multiplied by 2.

(**) Calculated as the simple average of the amounts of all the quarterly balance sheets for the current year (including the balance sheet corresponding to the December of the previous year) as a semi-sum of the extremes.

TAXATION

The following is a general description of certain Issuer's country 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. Prospective purchasers of 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 Issuer's country of acquiring, holding and disposing of Preferred Securities and receiving payments of interest, principal and/or other amounts under the Preferred Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in 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.

Spanish tax considerations

The following summary describes the main Spanish tax implications arising in connection with the acquisition and holding of the Preferred Securities by individuals or entities who are the beneficial owners of the Preferred Securities. The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain, and it is not intended to be, nor should it be construed to be, legal or tax advice, and does not address all the tax consequences applicable to all categories of investors, some of which (such as look through entities or Holders by reason of employment) may be subject to special rules.

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

Prospective purchasers of the Preferred Securities should consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of the Preferred Securities.

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

- (a) of general application, Additional Provision One of Law 10/2014, as well as Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011 of 29 July ("**Royal Decree 1065/2007**");
- (b) for individuals resident for tax purposes in Spain who are personal income tax ("**PIT**") taxpayers, Law 35/2006, of 28 November, on the PIT and on the partial amendment of the Corporate Income Tax Law, Non-Resident Income Tax Law and Wealth Tax Law, as amended (the "**PIT Law**"), and Royal Decree 439/2007, of 30 March, approving the PIT Regulations, as amended (the "**PIT Regulations**"), along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended;
- (c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax ("**CIT**") taxpayers, Law 27/2014, of 27 November, on CIT, as amended (the "**CIT Law**"), and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations, as amended (the "**CIT Regulations**"); and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are Non-Resident Income Tax ("**NRIT**") taxpayers, Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, as amended ("**NRIT Law**") and Royal Decree 1776/2004, of 30 July, promulgating the NRIT Regulations, as amended ("**NRIT Regulations**") along with Law 19/1991, of 6 June, on Wealth Tax as amended and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended.

Tax treatment of the Preferred Securities

Indirect taxation

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

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

Direct taxation

(a) Individuals with tax residency in Spain

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

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in each investor's savings income and taxed at the tax rate applicable from time to time, currently 19% for taxable income up to €6,000; 21% for taxable income between €6,000.01 and €50,000 and 23% for taxable income in excess of €50,000.

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

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

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

A (current) 19% withholding on account of PIT will be imposed by ABANCA on interest payments as well as on income derived from the redemption or repayment of the Preferred Securities, by individual investors subject to PIT.

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

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

Notwithstanding the above, 19% withholding tax shall apply on the part of the transfer price that corresponds to the accrued interest when the transfer of the Preferred Securities takes place within the 30-day period prior to the moment in which such interest is due when the following requirements are fulfilled:

- (i) the acquirer would be a non-resident or a CIT taxpayer;
- (ii) the explicit yield derived from the Preferred Securities being transferred is exempt from withholding tax.

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

Reporting Obligations

ABANCA will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are individuals resident in Spain for tax purposes.

Wealth Tax (Impuesto sobre el Patrimonio)

In accordance with Article 4 of Royal Decree-Law 3/2016, a full exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such exemption is revoked.

If it were revoked, individuals with tax residency in Spain would be subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*)). Therefore, they should take into account the value of the Preferred Securities which they hold as of 31 December in each year, the applicable rates ranging between 0.2% and 2.5% although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. The applicable rates range between 7.65% and 81.6%, although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

(b) Spanish tax resident legal entities

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities are subject to CIT at the current general flat tax rate of 25%.

However, this general rate will not be applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions (which will be taxed at the rate of 30%).

No withholding on account of CIT will be imposed on interest payments or on income derived from the redemption or repayment of the Preferred Securities, by Spanish CIT taxpayers provided that certain requirements are met (including that the Iberclear Members that have the Preferred Securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide ABANCA, in a timely manner, with a duly executed and completed Payment Statement, as defined below). See "*Compliance with Certain Requirements in Connection with Income Payments*".

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

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

Reporting Obligations

ABANCA will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Preferred Securities that are legal persons or entities resident in Spain for tax purposes.

Wealth Tax (Impuesto sobre el Patrimonio)

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

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

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

(c) *Individuals and legal entities that are not tax resident in Spain*

- (i) Investors that are not resident in Spain for tax purposes, acting in respect of the Preferred Securities through a permanent establishment in Spain

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

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

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

Reporting Obligations

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

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

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

Both interest payments periodically received under the Preferred Securities and income derived from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Preferred Securities, through a permanent establishment in Spain, are exempt from NRIT and therefore no withholding on account of NRIT will be levied on such income provided certain requirements are met.

In order to be eligible for the exemption from NRIT, certain requirements must be met (including that, in respect of interest payments from the Preferred Securities carried out by ABANCA, the Iberclear Members that have the Preferred Securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide ABANCA, in a timely manner, with a duly executed and completed Payment Statement, as defined below), as set forth in Article 44 of Royal Decree 1065/2007. See "*—Compliance with Certain Requirements in Connection with Income Payments*".

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to ABANCA in a timely manner in respect of a payment of interest under the Preferred Securities, ABANCA will withhold Spanish withholding tax at the applicable rate (currently 19%) on such payment of income on the Preferred Securities and ABANCA will not pay additional amounts with respect to any such withholding tax.

A beneficial owner who is not resident in Spain for tax purposes and entitled to exemption from NRIT, but to whom payment was not exempt from Spanish withholding tax due to a failure on the delivery of a duly executed and completed Payment Statement to ABANCA, will receive a refund of the amount withheld, with no need for action on the beneficial owner's part, if ABANCA receives a duly executed and completed Payment Statement no later than the tenth calendar day of the month immediately following the relevant payment date.

In addition, beneficial owners of the Preferred Securities may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the NRIT Law and its regulations.

Wealth Tax (Impuesto sobre el Patrimonio)

In accordance with Article 4 of Royal Decree-Law 3/2016, a full exemption (*bonificación del 100%*) on Wealth Tax will apply in 2018 unless such exemption is revoked.

If it were revoked, 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% and 2.5% although some reductions may apply.

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

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

Non-Spanish resident legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area Member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

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

(d) Compliance with certain requirements in connection with income payments

As described under "*Spanish tax resident legal entities—Corporate Income Tax (Impuesto sobre Sociedades)*", "*Individuals and legal entities that are not tax resident in Spain*", provided the conditions set forth in Law 10/2014 are met, income payments made by ABANCA in respect of the Preferred Securities for the benefit of Spanish CIT taxpayers, or for the benefit of non-Spanish

tax resident investors will not be subject to Spanish withholding tax, provided that the Iberclear Members that have the Preferred Securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide ABANCA, in a timely manner, with a duly executed and completed statement (a "**Payment Statement**") (which is attached as Annex I), in accordance with section 4 of Article 44 of Royal Decree 1065/2007, containing the following information:

- (i) Identification of the Preferred Securities.
- (ii) Total amount of the income paid by ABANCA.
- (iii) Amount of the income corresponding to individual residents in Spain that are PIT taxpayers.
- (iv) Amount of the income that must be paid on a gross basis.

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to ABANCA in a timely manner in respect of a payment of income made by ABANCA under the Preferred Securities, such payment will be made net of Spanish withholding tax, currently at the rate of 19%. If this were to occur, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to ABANCA no later than the tenth calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish NRIT Law.

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

The proposed financial transactions tax ("FTT")

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

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

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the 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.

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

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

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. ABANCA may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of ABANCA) 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, no person will be required to pay additional amounts as a result of the withholding.

Set out below is Annex I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Annex I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of the Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

ANNEX I

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal ()⁽¹⁾, en nombre y representación de (entidad declarante), con número de identificación fiscal ()⁽¹⁾ y domicilio en () en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number ()⁽¹⁾, in the name and on behalf of (entity), with tax identification number ()⁽¹⁾ and address in () as (function – mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book-entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by ABANCA.

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, in a subscription agreement dated 25 September 2018 (the "**Subscription Agreement**") and made between ABANCA and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to procure subscribers, or subscribe and pay for the Preferred Securities on the Closing Date at their issue price of 100% of their principal amount less a combined management and underwriting commission. ABANCA has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Preferred Securities.

ABANCA will use all reasonable endeavours to procure that the Preferred Securities are admitted to listing on AIAF within 30 days from the Closing Date and to maintain such admission until none of the Preferred Securities is outstanding.

Selling Restrictions

Prohibition of sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Preferred Securities to any retail investor in the EEA. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Spain

Each of the Joint Lead Managers has represented and agreed that the Preferred Securities have not been offered or sold in Spain other than by institutions authorised under the Spanish Securities Market Law, and related legislation, to provide investment services in Spain, and as agreed between ABANCA and the Joint Lead Managers, offers of the Preferred Securities in Spain have only been directed specifically at or made to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

United Kingdom

Each Joint Lead Manager has further represented, warranted and undertaken that:

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

United States of America

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

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

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Preferred Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering of the Preferred Securities and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons.

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

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 which it purchases, offers, sells or delivers Preferred Securities or possesses, distributes or publishes this Prospectus or any other offering material relating to the Preferred Securities.

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

MARKET INFORMATION

Summary of Clearance and Settlement Procedures

Below is a brief summary of the Spanish clearance and settlement procedures applicable to book-entry securities such as the Preferred Securities of ABANCA.

The Spanish clearing, settlement and recording system of securities transactions has undergone a significant reform to align it with the EU practices and standards and prepare it for the implementation of future integration projects (the "**Reform**"). Following the Reform, which implementation was completed by 18 September 2017, the Spanish clearing, settlement and registry procedures of securities transactions allows the connection of the post-trading Spanish systems to the European system TARGET2 Securities.

The Reform has introduced three main changes that, in turn, involve a number of operating modifications. These changes include (i) a new recording system based on balances, (ii) the introduction of a central clearing counterparty (BME Clearing, S.A., "**BME Clearing**" or the "**CCP**"), and (iii) the integration of the current CADE (*Central de Anotaciones de Deuda Pública*) and SCLV (*Servicio de Compensación y Liquidación de Valores*) into a single platform managed by Iberclear which operates under the trade name of ARCO.

Iberclear and BME Clearing

Iberclear is the Spanish central securities depository in charge of both the register of securities held in book-entry form, and the settlement of all trades from the Spanish Stock Exchanges, Latibex (the Latin American stock exchange denominated in Euro), the Book-Entry Public Debt Market, the Alternative Stock Market (MAB), Alternative Fixed Income Market (MARF) and AIAF. To achieve this, Iberclear uses the technical platforms named ARCO.

Iberclear and BME Clearing are owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a holding company, which holds a 100% interest in each of the Spanish official secondary markets and settlement systems.

The securities recording system of Iberclear is a two tier registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records correspond to the participating entities (*entidades participantes*) in Iberclear.

Access to become a participating entity is restricted to (i) credit institutions, (ii) investment services companies which are authorised to render custody and administration of financial instruments, (iii) the Bank of Spain, (iv) the General Administration and the General Social Security Treasury, (v) other duly authorised central securities depositories and central clearing counterparties and (vi) other public institutions and private entities when expressly authorised to become a participating entity in central securities depositories.

The central registry managed by Iberclear reflects (i) one or several proprietary accounts which show the balances of the participating entities' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the participating entities hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; and (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement of orders. Each participating entity, in turn, maintains the detail records of the owners of the securities or the shares held in their general third-party accounts.

According to the above, Spanish law considers the owner of the securities to be:

- the participating entity appearing in the records of Iberclear as holding the relevant securities in its own name;
- the investor appearing in the records of the participating entity as holding the securities; or
- the investor appearing in the records of Iberclear as holding securities in a segregated individual account.

BME Clearing is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions vis-à-vis the participants designated in such buy or sell instructions. The CCP then generates and send to Iberclear the relevant settlement instructions.

The settlement and book-entry registration platform managed by Iberclear, which operates under the trade name of ARCO (for both equity securities and fixed-income securities as from September 2017), receives the settlement instructions from BME Clearing and forwards them to the relevant participating entities involved in each transaction. ARCO operates under a T+2 settlement standard, by which any transactions must be settled within two business days following the date on which the transaction was completed.

To evidence title to securities, at the owner's request the relevant participating entity must issue a legitimization certificate (*certificado de legitimación*). If the owner is a participating entity or a person holding securities in a segregated individual account, Iberclear is in charge of the issuance of the certificate regarding the securities held in their name.

Market Information in relation to the Preferred Securities

Iberclear Settlement of securities traded in AIAF

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

Securities traded in AIAF are fixed income securities, including corporate bonds (for example, medium term notes and mortgage bonds) and bonds issued by the Spanish Treasury and Spanish regions, among others, represented either in a dematerialised form or by certificates.

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

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

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

Euroclear and Clearstream

Investors who do not have, directly or indirectly through their custodians, a participating account with Iberclear may hold their investment in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with participating entities in Iberclear.

GENERAL INFORMATION

Responsibility Statement

1. ABANCA and the undersigned, Mr. Juan Luis Vargas-Zuñiga de Mendoza, in his capacity as General Director of Capital Markets, Institutional Management and Distribution (*Director General de Mercado de Capitales, Gestión y Distribución*) of ABANCA and Mr. Alberto Manuel de Francisco Guisasola, in his capacity as Chief Financial Officer (*Director General de Finanzas*) of ABANCA, and acting under a special power of attorney granted by the Board of Directors of ABANCA, accept responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Authorisation

2. The creation and issue of the Preferred Securities has been authorised by a resolution of the Board of Directors of ABANCA dated 28 May 2018.

Significant/Material Change and Trend Information

3. Since 31 December 2017 there has been no material adverse change in the prospects of ABANCA.

Since 30 June 2018 there has been no significant change in the financial or trading position of ABANCA.

The sections "*Risk Factors – Risks Relating to ABANCA and the ABANCA Group*" of this Prospectus include a detailed description of the factors and uncertainties which could have a material effect on ABANCA's prospects.

Auditors

4. The Spanish-language individual and consolidated annual accounts of ABANCA have been audited without qualification for each of the years ended 31 December 2017, 31 December 2016 and 31 December 2015 by KPMG Auditores, S.L., independent auditors. KPMG Auditores, S.L.'s office is at Paseo de la Castellana 259 C, 28046, Madrid (Spain) and is registered with the Official Registry for Auditors (*Registro Oficial de Auditores de Cuentas (ROAC)*) under number S0702.

The Spanish-language condensed consolidated interim financial statements of ABANCA as of and for the six months ended 30 June 2018 have been subject to a limited review by KPMG Auditores, S.L., independent auditors. KPMG Auditores, S.L.'s office is at Paseo de la Castellana 259 C, 28046, Madrid (Spain) and is registered with the Official Registry for Auditors (*Registro Oficial de Auditores de Cuentas (ROAC)*) under number S0702.

Third party information

5. Information included in this Prospectus sourced from a third party has been accurately reproduced, and so far as ABANCA is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Approval of financial information

6. The 2015 Individual Annual Accounts and the 2015 Consolidated Annual Accounts were approved by the General Shareholders' Meeting of ABANCA held on 27 June 2016.

The 2016 Individual Annual Accounts and the 2016 Consolidated Annual Accounts were approved by the General Shareholders' Meeting of ABANCA held on 26 June 2017.

The 2017 Individual Annual Accounts and the 2017 Consolidated Annual Accounts were approved by the General Shareholders' Meeting of ABANCA held on 25 June 2018.

The 2018 Consolidated First Semester Interim Financial Statements were approved by the Board of Directors of ABANCA on its meeting held on 27 July 2018.

The 2016 consolidated annual accounts of the ABANCA Holding Group as of and for the year ended on 31 December 2016 were approved by the General Shareholders' Meeting of ABANCA Holding held on 30 June 2017.

The 2017 consolidated annual accounts of the ABANCA Holding Group as of and for the year ended on 31 December 2017 were approved by the General Shareholders' Meeting of ABANCA Holding held on 28 June 2018.

Documents on display

7. Physical copies of the following documents may be inspected during normal business hours at the registered office of Issuer at calle Cantón Claudino Pita, 2, Betanzos, A Coruña (Spain), for 12 months from the date of this Prospectus:
- (a) the bylaws (*Estatutos Sociales*) of ABANCA; and
 - (b) the deed of incorporation (*escritura de constitución*) of ABANCA.

Likewise, electronic copies of:

- (a) the bylaws (*Estatutos Sociales*) of ABANCA;
- (b) ABANCA's Spanish-language audited individual and consolidated annual accounts and the individual and consolidated directors' reports, together with the respective audit reports of KPMG Auditores, S.L. as of and for the year ended 31 December 2015;
- (c) ABANCA's Spanish-language audited individual and consolidated annual accounts and the individual and consolidated directors' reports, together with the respective audit reports of KPMG Auditores, S.L. as of and for the year ended 31 December 2016 (together with English translations of such annual accounts, directors' and audit reports);
- (d) ABANCA's Spanish-language audited individual and consolidated annual accounts and the individual and consolidated directors' reports, together with the respective audit reports of KPMG Auditores, S.L. as of and for the year ended 31 December 2017 (together with English translations of such annual accounts, directors' and audit reports); and
- (e) ABANCA's Spanish-language unaudited condensed consolidated interim financial statements and the directors' report, together with the review report of KPMG Auditores, S.L. as of and for the six-month period ended 30 June 2018 (together with the English translation of such financial statements, directors' and limited review report)

may be inspected on ABANCA's website <http://www.ABANCAcorporacionbancaria.com/es/>.

The translation into English of the Spanish-language audited individual and consolidated annual accounts and the individual and consolidated directors' report, together with the respective audit report of KPMG Auditores, S.L., and of the unaudited condensed consolidated interim financial statements, together with its limited review report of KPMG Auditores, S.L. are direct and accurate translations of the corresponding documents. In the event of any discrepancy between the English language version and the original Spanish language version, the original Spanish language version shall prevail.

Material Contracts

8. There are no material contracts which contain provisions under which ABANCA or any member of the ABANCA Group has an obligation or entitlement which is, or may be, material to the ability of ABANCA to meet its obligations in respect of the Preferred Securities.

Yield

9. On the basis of the issue price of the Preferred Securities of 100% of their principal amount, the annual yield of the Preferred Securities for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 7.714%. This yield was calculated on the Closing Date and is not an indication of future yield.

Clearing: ISIN and Common Code

10. The Preferred Securities will be admitted to listing on AIAF and have been accepted for clearance through Iberclear. The Preferred Securities bear the ISIN ES0865936001 and the common code 188745318.

Listing

11. This Prospectus has been approved by the CNMV in its capacity as competent authority under the Prospectus Directive and relevant implementing measures in Spain. Application has been made for the Preferred Securities to be admitted to trading on AIAF. The Preferred Securities may also be admitted to trading on any other secondary market as may be agreed by ABANCA.

Paying agency

12. All payments under the Conditions will be carried out directly by ABANCA through Iberclear.

Stabilisation

13. In connection with the issue of the Preferred Securities, Barclays Bank PLC (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and any other applicable laws and rules.

Interests of natural and legal persons involved in the offer of the Preferred Securities

14. Save as discussed in "*Subscription and Sale*", so far as ABANCA is aware, no person involved in the offer of the Preferred Securities had an interest material to the offer.

Other relationships

15. 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, ABANCA 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 ABANCA or its affiliates. Certain Joint Lead Managers or their affiliates that have a lending relationship with ABANCA routinely hedge their credit exposure to ABANCA consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Preferred Securities issued under the Prospectus. Any such short positions could adversely affect future trading prices of Preferred Securities issued under the Prospectus. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or

recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Expenses related to the admission to trading

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

Type of expense	Euro (estimated amount)
Charges and fees of AIAF and Iberclear	13,000
CNMV fees (listing)	25,000
Total	38,000

SIGNATURES

In witness to their knowledge and approval of the contents of this Prospectus drawn up according to Annexes XI and XIII of Commission Regulation (EC) No 809/2004 of 29 April 2004, it is hereby signed by Mr. Juan Luis Vargas-Zuñiga de Mendoza, in his capacity as General Director of Capital Markets, Institutional Management and Distribution (*Director General de Mercado de Capitales, Gestión y Distribución*) of the Bank and Mr. Alberto Manuel de Francisco Guisasola, in his capacity as Chief Financial Officer (*Director General de Finanzas*) of the Bank, in A Coruña, on 25 September 2018.

REGISTERED OFFICE OF ABANCA

ABANCA Corporación Bancaria, S.A.

Calle Cantón Claudino Pita, 2
Betanzos
A Coruña
Spain

JOINT LEAD MANAGERS

Barclays Bank PLC 5 The North Colonnade Canary Wharf, London E14 4BB United Kingdom	BNP Paribas 10 Harewood Avenue London NW1 6AA United Kingdom	Nomura International plc 1 Angel Lane London EC4R 3AB United Kingdom	UBS Limited 5 Broadgate London EC2M 2QS United Kingdom
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LEGAL ADVISORS

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

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

Linklaters, S.L.P.
Calle Almagro, 40
28010 Madrid
Spain

AUDITORS TO ABANCA

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046, Madrid
Spain