

## BASE PROSPECTUS



### **BPE FINANCIACIONES, S.A.**

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

**€5,000,000,000**

### **Euro Medium Term Note Programme**

guaranteed by

### **BANCO POPULAR ESPAÑOL, S.A.**

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

This document constitutes a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive as defined below. Under the Euro Medium Term Note Programme described in this Base Prospectus (the "**Programme**"), BPE Financiaciones, S.A. (the "**Issuer**") may from time to time issue notes ("**Notes**"), subject to compliance with all relevant laws, regulations and directives.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

The payment of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by Banco Popular Español, S.A. (the "**Guarantor**" or the "**Bank**"). The aggregate principal amount of Notes outstanding and guaranteed will not at any time exceed €5,000,000,000 (or the equivalent in other currencies).

This Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU (the "**Prospectus Directive**"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and the Prospectus (Directive 2003/71/EC) Regulations 2005 and for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months after the date hereof. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The Programme also permits Notes to be issued on the basis that they will be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State for the European Economic Area.

The Guarantor has been assigned a rating of "B+ (negative outlook)" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), "BB+ (negative outlook)" by Fitch Ratings España, S.A.U. ("**Fitch**"), "Ba3 (Negative outlook)" by Moody's Investors Service España, S.A. ("**Moody's**") and "A (low) (negative outlook)" by DBRS Ratings Limited. ("**DBRS**"). Each of S&P, Fitch, Moody's and DBRS is established in the European Economic Area ("EEA") and is registered under Regulation EU No 1060/2009, as amended (the "**CRA Regulation**"). Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating(s) will not necessarily be the same as the ratings described above or the rating(s) assigned to Notes already issued. If a Tranche of Notes is rated, it will be specified in the relevant Final Terms if the relevant credit rating agency is or is not established in the European Union and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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Arranger

BARCLAYS

Dealers

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.  
BARCLAYS  
BoFA MERRILL LYNCH  
COMMERZBANK  
CREDIT SUISSE  
GOLDMAN SACHS INTERNATIONAL  
J.P. MORGAN  
NATIXIS

BANCO POPULAR ESPAÑOL, S.A.  
BNP PARIBAS  
CITIGROUP  
CRÉDIT AGRICOLE CIB  
DEUTSCHE BANK  
HSBC  
MORGAN STANLEY  
NOMURA

SANTANDER GLOBAL BANKING & MARKETS  
UBS INVESTMENT BANK

SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING

The date of this Base Prospectus is 22 December 2014

*Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Base Prospectus and declares that, having made all reasonable enquiries and having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*This Base Prospectus should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Final Terms (as defined herein).*

*The language of this Base 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 the Base Prospectus.*

*The Issuer and the Guarantor have confirmed to the Dealers named under "Plan of Distribution" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.*

*No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers (as defined in "Plan of Distribution"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this document has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Programme 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.*

*Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in the final terms (the "**Final Terms**") which, with respect to Notes to be listed on the Irish Stock Exchange, will be delivered to the Central Bank on or before the date of issue of the Notes of such Tranche.*

*The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restriction.*

*The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "Plan of Distribution".*

*This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Dealers to subscribe for, or purchase, any Notes.*

*The Dealers have not separately verified the information contained in this Base Prospectus. None of the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each*

*potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers.*

*The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €5,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Euro at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement, as defined under "Plan of Distribution".*

*In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to a "Member State" are references to a Member State of the European Economic Area, references to "EUR", "Euro" 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, and to "U.S.\$", "U.S. Dollars" and "dollars" are to the lawful currency of the United States of America.*

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## ISSUE OF NOTES

Notes will be issued on a continuous basis in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on different issue dates. The specific terms of each Tranche will be set forth in a final terms to this Base Prospectus (a "**Final Terms**") the form of which is set out in "*Pro Forma Final Terms*" below.

## DOCUMENTS INCORPORATED BY REFERENCE

The documents numbered (1) to (5) below have been filed with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and English translations of those documents (which are direct and accurate translations of the Spanish originals) together with the documents numbered (6) below, which have been filed previously with the Central Bank, shall be deemed to be incorporated in, and to form part of, the Base Prospectus:

- (1) the audited consolidated annual accounts of the Guarantor for the years ended 31 December 2013 and 31 December 2012 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") together with the auditor's reports thereon;
- (2) the audited consolidated half-yearly financial report of the Guarantor for the six month period ended 30 June 2014 prepared in accordance with IFRS together with the auditor's report thereon;
- (3) the unaudited interim consolidated quarterly report of the Guarantor for the nine month period ended 30 September 2014 prepared in accordance with IFRS;
- (4) the audited unconsolidated annual accounts of the Issuer for the years ended 31 December 2013 and 31 December 2012 prepared in accordance with generally accepted accounting principles in Spain ("**Spanish GAAP**") together with the auditor's reports thereon;
- (5) the unaudited unconsolidated half-yearly financial statements of the Issuer for the six month period ended 30 June 2014 prepared in accordance with Spanish GAAP; and
- (6) the terms and conditions of the Notes contained in the previous base prospectuses dated 22 December 2009, pages 15-36 (inclusive) (the "**2009 Conditions**"), 20 December 2012, pages 25-49 (inclusive) (the "**2012 Conditions**") and 23 December 2013, pages 31-61 (inclusive) (the "**2013 Conditions**") prepared by the Issuer in connection with the Programme.

Documents (1) above are available

on [http://www.grupobancopopular.com/EN/InvestorRelations/Documents/Annual%20Reports/BPE\\_2013\\_ENG\\_v2.pdf](http://www.grupobancopopular.com/EN/InvestorRelations/Documents/Annual%20Reports/BPE_2013_ENG_v2.pdf) and <http://www.grupobancopopular.com/EN/InvestorRelations/FinancialInformation/Documents/2012/Annualreport2012.pdf>

Document (2) above is available on

<http://www.grupobancopopular.com/EN/InvestorRelations/FinancialInformation/Documents/2014/Half-Yearly%20financial%20report%201H14.pdf>

Document (3) above is available

on [http://www.grupobancopopular.com/ES/AccionistasInversores/InformacionEconomicaFinanciera/Documents/Informes\\_trimestrales/2014/3T14/3Q\\_2014.pdf](http://www.grupobancopopular.com/ES/AccionistasInversores/InformacionEconomicaFinanciera/Documents/Informes_trimestrales/2014/3T14/3Q_2014.pdf)

Documents (4) above are available on

<http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/Annual%20Accounts%202013%20BPE%20Financiaciones.pdf> and [http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/BPE%20Financiaciones%202012%20Annual%20Report%20\(English\).pdf](http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/BPE%20Financiaciones%202012%20Annual%20Report%20(English).pdf)

Document (5) above is available on

<http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/Financial%20Results%201H2014.pdf>

Documents (6) above are available on the following:

- 2009 Conditions  
[http://www.ise.ie/debt\\_documents/1445\\_16238\\_BP\\_22122009\\_15872.pdf](http://www.ise.ie/debt_documents/1445_16238_BP_22122009_15872.pdf)

- 2012 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_6e9e0d49-e2df-4d37-84ab-3135e7ca9c5f.pdf](http://www.ise.ie/debt_documents/Base%20Prospectus_6e9e0d49-e2df-4d37-84ab-3135e7ca9c5f.pdf)
- 2013 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_2f11c59c-aeba-496d-ae7c-47c8693a4c8d.pdf?v=14102014](http://www.ise.ie/debt_documents/Base%20Prospectus_2f11c59c-aeba-496d-ae7c-47c8693a4c8d.pdf?v=14102014)

Copies of this Base Prospectus (and any document incorporated by reference in this Base Prospectus) will be made freely available at the office of the Irish Listing Agent. Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus.

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## KEY FEATURES OF THE PROGRAMME

The following must be read as an introduction to the Base Prospectus and any decision to invest in the Notes should be based on consideration of this Base Prospectus as a whole, including the documents incorporated by reference.

### Information relating to the Issuer

#### The Issuer:

BPE Financiaciones, S.A.

The Issuer was incorporated on 19 February 2004 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at calle José Ortega y Gasset 29, 28006 Madrid. The Issuer is registered in Volume 19.873, Book O, Folio 164, Section 8 and Sheet M-350196, Registration 1 of the Mercantile Registry (*Registro Mercantil*) of Madrid.

#### Business:

The principal objects of the Issuer are set forth in Clause 2 of its Memorandum of Association (*Estatutos*) and are the issuance of bonds (*bonos, obligaciones, pagarés, etc.*) and other financial instruments.

#### Directors:

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Santiago Armada Martínez de Campos	Chairman
Sara Zárate Lacalle	Director
Aranzazu Ruiz Cotero	Director
María Raga García	Director
Daniel de Diego Rozas	Vice-Chairman

### Information Relating to the Guarantor

#### The Bank and the Group:

Banco Popular Español, S.A. was founded on 14 July 1926 for an undefined period of time as a limited liability corporation (*sociedad anónima*) as Banco Popular de los Previsores del Porvenir, adopting its current name in February 1947.

It is registered in Volume 174, Folio 44, Sheet 5458, Registration 1 of the Mercantile Registry of Madrid.

Its objects are to provide the widest possible services to its clients in all business services and banking matters.

The Bank's registered office is at C/Velázquez, 34, 28001, Madrid, Spain.

As at 31 December 2013 the Board of Directors represented approximately 16.512 per cent. of the Bank's share capital, institutional investors represented approximately 13.07 per cent. of the Bank's share capital and individual shareholders represented approximately 70.421 per cent. of the Bank's share capital.

#### Business:

At 30 September 2014, the total assets of the Bank and its consolidated subsidiaries (the "**Group**") amounted to €159,993 million and its consolidated income for the year ended 31 December 2013 amounted to €325 million.

The Group's business concentrates on domestic retail banking and SME banking, the most important being the business of savings and loans. It also provides through its specialised subsidiaries, factoring, investment management, mutual and pension funds, stock broking, life insurance and mortgage lending.

<b>Directors and Employees:</b>	<p>The members of the Board of Directors of the Bank as of the date of this Base Prospectus are as follows:</p> <p>Francisco Gómez Martín (CEO)  Ángel Carlos Ron Guimil (Chairman)  Francisco Aparicio Valls (Secretary-Director)  Roberto Higuera Montejo (Vice Chairman)  Luis Herrando Prat de la Riba (Vice Chairman-Director)  José María Arias Mosquera (Vice Chairman-Director)  Alain Fradin  Ana María Molins López-Rodó  Helena Revoredo Delveccio  Sindicatura de Accionistas de BPE (represented by Miguel Solís)  Vicente Tardío Barutel  Unión Europea de Inversiones, S.A. (represented by José Ramón Rodríguez García)  Barrié de la Maza Foundation  Jorge Oroviogoicochea Ortega  Antonio del Valle Ruiz</p>
<b>Description of the Programme</b>	
<b>Description:</b>	Guaranteed Euro Medium Term Note Programme
<b>Arranger:</b>	Barclays Bank PLC
<b>Dealers:</b>	<p>Banco Bilbao Vizcaya Argentaria, S.A., Banco Popular Español, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP PARIBAS, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley &amp; Co. International plc, Natixis, Nomura International plc, Société Générale and UBS Limited.</p> <p>The Issuer may from time to time terminate the appointment of any Dealers under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the Programme.</p>
<b>Fiscal Agent:</b>	The Bank of New York Mellon, London Branch
<b>Registrar:</b>	The Bank of New York Mellon (Luxembourg) S.A.
<b>Size:</b>	Up to €5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
<b>Currencies:</b>	Notes may be denominated in Euro or U.S. dollars or in any other currency or currencies of an OECD country, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
<b>Maturities:</b>	Any maturity greater than one year, subject to compliance with all relevant laws, regulations, central bank requirements and directives. Subordinated Notes will have a maturity of not less than five years or as otherwise permitted by the relevant central bank (or equivalent body) or any applicable laws or regulations.
<b>Denomination:</b>	No Notes may be issued under the Programme which (a) have a minimum denomination of less than €100,000 (or nearly equivalent

	<p>in another currency) or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p>
<b>Method of Issue:</b>	<p>The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in one or more Series (which may be issued on the same date or which may be issued in more than one Tranche on different dates). The Notes may be issued in Tranches on a continuous basis with no minimum issue size, subject to compliance with all applicable laws, regulations and directives. Further Notes may be issued as part of an existing Series.</p>
<b>Form of Notes:</b>	<p>Notes may be issued in registered form, without interest coupons ("<b>Registered Notes</b>"), or in bearer form, with or without interest coupons ("<b>Bearer Notes</b>").</p> <p>Bearer Notes will, unless otherwise specified, only be sold outside the United States to non-U.S. persons in reliance on Regulation S and will, unless otherwise specified in the applicable Final Terms, initially be represented by a Temporary Global Note without interest coupons attached, deposited: (a) in the case of a global note which is not intended to be issued in new global note form (a "<b>Classic Global Note</b>" or "<b>CGN</b>"), as specified in the relevant Final Terms, with or on behalf of a Common Depositary located outside the United States for Euroclear and Clearstream, Luxembourg; or (b) in the case of a global note which is intended to be issued in new global note form (a "<b>New Global Note</b>" or "<b>NGN</b>"), as specified in the relevant Final Terms, with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Interests in a Temporary Global Note will be exchangeable for interests in a permanent global Note in bearer form, without coupons (a "<b>Permanent Global Note</b>"). Bearer Notes will not be exchangeable for Registered Notes. Registered Notes will not be exchangeable for Bearer Notes.</p>
<b>Issue Price:</b>	<p>Notes may be issued at their principal amount or at a discount or premium to their principal amount. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.</p>
<b>Fixed Interest Rate Notes:</b>	<p>Fixed interest will be payable in arrear on the date or dates in each year, specified in the relevant Final Terms.</p>
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR or LIBOR, as specified in the relevant Final Terms, as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.</p>
<b>Interest Periods and Interest Rates:</b>	<p>The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Final Terms.</p>
<b>Redemption by Instalments:</b>	<p>The Final Terms issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the date on which, and the amounts in which, such Notes may be redeemed.</p>

**Other Notes:**

Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes and any other type of Note which the Issuer, and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms or in a drawdown prospectus.

**Optional Redemption:**

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. Subordinated Notes may not be redeemed until five years after the issue date (or otherwise as permitted by applicable laws and regulations) and such redemption is subject to the prior consent of the Regulator. In no circumstances may Subordinated Notes be redeemed prior to their maturity at the option of the Noteholders.

**Status of the Notes and the guarantee:**

Notes may be either Senior Notes or Subordinated Notes as more fully described in "*Terms and Conditions of the Notes — Guarantee and Status*".

Senior Notes and the guarantee in respect of them will constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively. Upon the insolvency of the Issuer or the Guarantor, Senior Notes or the guarantee in respect of them (as applicable) will rank *pari passu* among themselves and equally with all other unsecured and unsubordinated obligations of the Issuer or the Guarantor, respectively, unless they qualify as subordinated claims pursuant to article 92 of Insolvency Law or equivalent legal provisions which replace it in the future, and subject to any applicable legal and statutory exceptions.

Subordinated Notes and the guarantee in respect of them will constitute subordinated obligations of the Issuer and the Guarantor, respectively. Upon the insolvency of the Issuer or the Guarantor (and unless they qualify as subordinated claims pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provisions which replace them in the future, and subject to any applicable legal and statutory exceptions), the Subordinated Notes or the guarantee in respect of them (as applicable) will rank: junior to the claims of all Senior Creditors of the Issuer and the Guarantor; without preference or priority among themselves and equally with all other contractually subordinated obligations of the Issuer or the Guarantor, respectively, other than those subordinated obligations which qualify as subordinated claims pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provisions which replace them in the future, other subordinated obligations prescribed by law, and subordinated obligations which are expressed to rank junior to the Subordinated Notes; and senior to (i) the claims of holders of all share capital of the Issuer and the Guarantor and (ii) the claims of holders of all obligations of the Issuer and the Guarantor which constitute Tier 1 Capital of the Issuer and the Guarantor.

"**Senior Creditor**" means creditors of the Issuer whose claims are in respect of obligations which are unsubordinated (including, for the avoidance of doubt, holders of Senior Notes) or which otherwise rank, or are expressed to rank, senior to obligations which constitute Tier 1 Capital or Tier 2 Capital of the Issuer (including any holders of Subordinated Notes).

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings

given to such terms in the Applicable Banking Regulations from time to time.

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Issuer and the Guarantor including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies of the Regulator relating to capital adequacy 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 Issuer and the Guarantor).

**Taxation**

Payments in respect of Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature 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, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will (subject to certain exceptions described below) pay such additional amounts as will result in the holders of Notes or Coupons receiving such amounts as they would have received in respect of such Notes or Coupons had no such withholding or deduction been required. In addition to certain customary exceptions, no such additional amounts shall be payable:

- (a) to, or to a third party on behalf of, a holder in respect of whom the Issuer, the Guarantor (or the Fiscal Agent on its behalf) has not received such information (which may include a tax residence certificate) concerning such holder's identity and tax residence (or the identity or tax residence of the beneficial owner for whose benefit it holds such Notes) as it may be required in order to comply with Spanish tax reporting requirements; and
- (b) if the Spanish tax authorities make the determination described in Condition 9 (v) and (vi) (see "*Terms and Conditions of the Notes — Taxation*").

**Negative Pledge:**

Applicable exclusively to Senior Notes. The Senior Notes will contain a negative pledge as more fully set out in "*Terms and Conditions of the Notes — Negative Pledge*".

**Cross Default:**

Applicable exclusively to Senior Notes. The Senior Notes will contain a cross default in respect of Relevant Indebtedness of the Issuer and the Guarantor as more fully set out in "*Terms and Conditions of the Notes — Events of Default*".

**Early Redemption:**

Except as provided in "*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons.

**Disclosure of Information in Connection with Payments:**

Under Spanish Law 10/2014 of 26 June on regulation, supervision and solvency of credit entities ("**Law 10/2014**"), and Royal Decree 1065/2007 of 27 July ("**Royal Decree 1065/ 2007**") as amended, the Issuer and the Guarantor are required to provide to the Spanish tax authorities certain information relating to the Notes. If the Fiscal Agent fails to provide the Issuer or, as the case may be, the Guarantor with the required information described under

	<p><i>"Taxation and Disclosure of Information in Connection with Payments"</i>, the Issuer or the Guarantor (as the case may be) may be required to withhold tax at the current rate of 21 per cent. (20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016, according to the tax reform).</p> <p>A summary of those procedures is set out in <i>"Taxation and Disclosure of Information in Connection with Payments — the Kingdom of Spain"</i>.</p> <p>None of the Issuer, the Guarantor, the Arranger, the Dealers, the Registrars and the Clearing Systems assume any responsibility therefore.</p>
<b>Governing Law:</b>	<p>English, save for the issue of the Notes, including their legal nature and status, the capacity of the Issuer and Guarantor, the relevant corporate resolutions, the appointment of the Commissioner, the constitution of the Syndicate of Noteholders and status of the payment obligations under the Deed of Guarantee, which are governed by the laws of Spain.</p>
<b>Listing:</b>	<p>This Base Prospectus has been approved by the Central Bank as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive.</p> <p>Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market, as specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may or may not be listed on the Irish Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, within the EU. Unlisted Notes will not be issued under the Programme.</p>
<b>Selling Restrictions:</b>	<p>United States, United Kingdom, Spain, France and Italy. See <i>"Plan of Distribution"</i>.</p> <p>In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.</p>
<b>Risk Factors:</b>	<p>Prospective investors should understand the risks of investing in any type of Note before they make their investment decision. They should make their own independent decision to invest in any type of Note and as to whether an investment in such Note is appropriate or proper for them based upon their own judgment and upon advice from such advisers as they consider necessary.</p> <p>For a description of certain risks involved in investing in the Notes, see <i>"Risk Factors"</i>.</p> <p>Risk factors are designed both to protect investors from investments from which they are not suitable and to set out the financial risks associated with an investment in a particular type of Note.</p>
<b>Representation of holders of the Notes:</b>	<p>The Fiscal Agency Agreement contains provisions for convening the Syndicate of holders of Notes to consider any matter affecting their interests.</p>
<b>Rating:</b>	<p>Tranches of Notes may be rated or unrated and if rated, such rating(s) will be specified in the relevant Final Terms and it shall also be specified if the relevant credit rating agency is or is not established in the European Union and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 (as amended) of the</p>

European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

## **RISK FACTORS**

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

*Prospective investors should note that the risks relating to the Issuer and the Guarantor, the industry(ies) in which each of them operates and the Notes summarised in the section of this Base Prospectus headed "Key Features of the Programme" are the risks that the Issuer and the Guarantor believe to be the most relevant to an assessment by a prospective investor of whether to consider an investment in the Notes. However, as the risks which the Issuer and the Guarantor face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this Base Prospectus headed "Key Features of the Programme" but also, among other things, the risks and uncertainties described below.*

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

Defined terms used in the statements below have the meanings assigned to them elsewhere in this Base Prospectus, including in "Conditions of the Notes".

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Notes**

#### *Dependence on other Group members*

The Issuer is a finance vehicle established by the Guarantor for the purpose of issuing the Notes and on lending the proceeds within the Group. The Issuer is therefore dependent upon other members of the Group paying interest on and repaying their loans in a timely fashion. Should any Group member fail to pay interest on or repay any loan in a timely fashion this could have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Notes and that is the reason why the Notes are guaranteed. By virtue of its dependence on other Group members, each of the risks described below that affect the Guarantor will also indirectly affect the Issuer.

### **Risks in Relation to the Banking Activities of the Group**

The principal types of risk to which the banking activities of the Group (as defined below) are subject include the following:

*Credit Risk:* Credit risk can be defined as possible losses which may be generated by a potential default in whole or in part of obligations by a counterparty or debtor (including, but not limited to, an insolvency proceeding of a counterparty or debtor). These obligations arise in both the financial activities of the Group and its dealing and investment activities since they arise by means of loans, fixed interest or equity securities, derivative instruments or other types of products (for example, guarantees).

*Market Risk:* Market risk refers to the uncertainties to which the Group's financial position and future income are exposed as a result of adverse movements in the prices of financial instruments with which the Group operates in its activities in financial and securities markets.

*Interest Rate Risk:* Overall balance sheet interest risk can be defined as the extent to which an institution may be affected by future movements which occur in market interest rates. The principal reasons for this risk derive from the different speed and intensity with which changes in market interest rates are passed on to assets, liabilities and off-balance sheet positions based on the times when they fall due and



repricing. At 31 December 2013, interest-rate sensitive assets totalled €11,870 million, compared with €14,815 million of interest-rate sensitive liabilities, with an aggregate positive gap of €2,945 million.

Where the maturities of sensitive assets exceed those of sensitive liabilities, rising interest rates should have a positive impact on the Guarantor's interest income in the short term. Conversely, a scenario of falling rates would have a negative impact.

Short term effects are shown in the profit and loss account and in the medium term are manifested by movements in the financial value of assets and liabilities which form part of the balance sheet.

*Liquidity Risk:* Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover its obligations to customers, meet the maturity of its liabilities and to satisfy capital requirements. It includes both the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able to meet its payment obligations on time at a reasonable price due to liquidity pressures.

*Exchange Rate Risk:* The exchange rate risk consists of the potential losses which may occur as a result of adverse movements in exchange rates in respect of the different currencies in which the Group operates.

*Operational Risk:* Operational risk includes:

- (a) the business risk which may result from unforeseeable changes in external factors without sufficient time to make the structural changes necessary to adapt to them, and the risk that unforeseeable events occur which could lead to losses for the Group;
- (b) transactional risks resulting from errors in execution, registration failure, deriving from the complexity of certain products, errors in delivery and/or liquidation and/or human error;
- (c) risks in operational controls which include losses resulting from potential errors in transaction documentation, in obtaining the appropriate authorisations, fraud, lack of personnel training, failure to comply with limits or procedures laid down, failure of internal controls or unavailability of personnel;
- (d) losses resulting from material loss and damage as well as extreme events, for example natural disasters;
- (e) data processing risks, such as programming errors, systems failure and application design errors; and
- (f) legal risks, including the possibility that transactions may not be legally enforceable in the existing legal and/or regulatory framework, and also that change in law and regulations may negatively affect the situation of the Group.

*Risk due to treasury share transactions.*

As part of its day-to-day operations, the Guarantor actively manages its treasury share portfolio, which entails buying and selling securities in the market. As this activity is subject to market conditions, the Guarantor may generate either gains or losses on these transactions. Such losses may have an adverse effect on the Group's financial condition.

Capital gains (losses) on these transactions for the years ended 31 December 2013, 2012 and 2011 are as follows:

	<u>Dec 2013</u>	<u>Dec 2012</u>	<u>Dec 2011</u>
Capital Gains (losses) generated by the sale of treasury shares ( <i>thousands of Euro</i> )	(62,812)	(81,076)	(8,051)

#### **Macroeconomic risks faced by the Group**

*Continuing unfavourable global economic conditions, and in particular, continuing unfavourable economic conditions in Spain, including any further deterioration in the European or Spanish financial systems, could have a material adverse effect on the Group's business, financial condition and results of operations.*

The crisis in worldwide financial and credit markets has led to a global economic slowdown in recent years, with many economies around the world showing significant signs of weakness or slow growth. In Europe, there has been a significant reduction in risk premiums since late 2012, which have improved during 2013 but have not yet returned to normal levels. Nevertheless, uncertainty regarding the budget deficits and solvency of several countries persists, together with the risk of contagion to other more stable countries. To a lesser extent than during the height of the financial crisis, there is also the risk of default on the sovereign debt of certain EU countries and the impact this would have on the Eurozone countries, including the potential risk that one or more countries may leave the Eurozone - either voluntarily or involuntarily - has raised concerns about the ongoing viability of the euro currency and the European Monetary Union ("EMU"). These and other concerns could lead to the re-introduction of individual currencies in one or more EU Member States, or, in more extreme circumstances, the possible dissolution of the euro entirely. Notwithstanding the above, the probability of country defaults or rupture of the Eurozone has decreased since 2012. The exit of one or more EU Member States from the EMU or the dissolution of the EMU could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, tensions among Member States of the EU, and growing Euro-scepticism in certain EU countries, could pose additional difficulties in the EU's ability to react to an economic crisis.

The European Central Bank (the "ECB") and European Council took actions in 2012 to aim to reduce the risk of contagion throughout and beyond the eurozone. These included the creation of the Open Market Transaction facility of the ECB and the decision by eurozone governments to create a banking union. A significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under financial pressure.

Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis.

The continued high cost of capital for some European governments was felt in the wholesale markets and there has been a consequent increase in the cost of retail funding, with greater competition in a savings market that is growing slowly by historical standards. In the absence of a permanent resolution to the eurozone crisis, conditions may deteriorate.

The Group has direct and indirect exposure to financial and economic conditions throughout the eurozone economies.

A deterioration of the economic and financial environment could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both market and retail levels. This could materially and adversely affect the Group's operating results, financial position and prospects.

Additionally, it cannot be ruled out that there may be periods of instability as a result of upcoming events that could alter the progress that has been made in establishing a European banking union and strengthening the monetary union of the Eurozone more generally. These events include the European Parliamentary elections, announcement of the conditions and results of future ECB stress tests and asset quality reviews of the European banking sector. The risk of significant deflation also cannot be ruled out.

The ECB has recently conducted, with the help of national supervisors, external advisors, consultants and other appraisers, a comprehensive assessment of the Group consisting of three elements: (i) a supervisory risk assessment, which assessed the main risks on the balance sheet including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; the implementation of the asset quality review exercise resulted in €70 million of provisions, already booked, and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. The Group has successfully

passed the stress tests, both in the adverse scenario with a CET1 ratio at 7.56 per cent. and in the base scenario with a CET1 ratio at 10.93 per cent., well above the minimum required (5.5 per cent.).

*Spain is a focal point of the continuing European sovereign debt crisis.*

The Group results of operations are materially affected by conditions in the capital markets and the economy generally in the Eurozone, which, although improving recently, continue to show signs of fragility and volatility and in some cases only sporadic access to capital markets. Interest rate differentials across Eurozone countries are affecting government finance and borrowing rates in those economies.

The ECB and European Council took actions in 2012 and 2013 to aim to reduce the risk of contagion throughout and beyond the Eurozone. These included the creation of the Open Market Transaction facility of the ECB and the decision by Eurozone governments to create a banking union. A significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations that are under financial pressure. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis.

The recent reductions in the risk premia paid by Spain on government bonds and improved access to funding has not entirely addressed concerns about Spain in the context of the sovereign debt crisis and health of the Spanish banking sector. The prospect of the continued contraction of the Spanish economy could prompt Spanish leaders to consider requesting financial assistance from the ECB. Any such financial assistance could impose austerity measures and other restrictions on the Spanish government, including enhanced requirements directed toward Spanish banking institutions, which could make it difficult for Spain to generate revenues and would raise additional concerns regarding its ability to service its sovereign debt. Any such restrictions, including additional capital requirements applicable to Spanish banking institutions, could also materially affect the Group's financial condition. Furthermore, any such austerity measures could adversely affect the Spanish economy and reduce the capacity of the Group's Spanish borrowers to repay loans made to them, increasing the Group's non-performing loans.

Economic conditions remain uncertain in Spain and the European Union and may deteriorate in the future, which could adversely affect the cost and availability of funding for Spanish and European banks, including the Group and the quality of the Group's loan portfolio, require the Group to take impairments on its exposures to the sovereign debt of one or more countries in the Eurozone or otherwise adversely affect the Group's business, financial condition and results of operations.

*The Group is exposed to the sovereign risk.*

The table below shows the Group's total exposure to sovereign risk at 31 December 2013, by type of financial instrument. As reflected in the table, the Group's exposure to sovereign risk is limited to Spain, Italy and Portugal, with Spain accounting for 97.7 per cent. of this exposure (95.3 per cent. at 31 December 2012). As such, total exposure to sovereign risk amounts to €10,441 million, down by 37.49 per cent. from 2012 levels (€16,704 million).

At 31 December 2013, the available-for-sale portfolio presented losses totalling €561 million, while the held-for-trading portfolio showed gains of €0.014 million.

The valuation losses originating from exposure to Spanish public debt amounted to €386,730 thousand in 2013, and €236,502 thousand in 2011.

#### Sovereign risk exposure by countries at 31 December 2013

	Financial Liabilities held from trading	Available for sale portfolio	Held to maturity investments	Loans and receivables	Total	Per cent.
<i>(millions of euro except percentages)</i>						
Spain .....	-	8,549	-	1,631	10,180	97.5 %
Italy .....	-	223	-	-	223	2.1 %

	Financial Liabilities held from trading	Available for sale portfolio	Held to maturity investments	Loans and receivables	Total	Per cent.
<i>(millions of euro except percentages)</i>						
Portugal.....	-	38	-	-	38	0.4 %
<b>Total Sovereign Risk Exposure .....</b>	-	8,810	-	1,631	10,441	100 %

In the medium term, the Spanish economy may not be able to recover from the crisis at the same pace as the other major European countries. This could have a negative impact on the Guarantor's business activity, financial position and operating results. Moreover, other circumstances are generating uncertainties regarding Spain's ability to meet its sovereign debt payments in the future. Any default on the country's sovereign debt could have a material adverse effect on the Guarantor.

As of December 2013, Banco Popular did not have sovereign exposures in the held-to-maturity portfolio nor in the held-for-trading portfolio.

*Risks in relation to the global macroeconomic environment.*

Despite the extent of the aforementioned financial assistance, global investor confidence remains cautious. The world's largest developed economies, including the United States and United Kingdom, grew during 2012, although in most cases still at a slow pace. There have been downgrades of the sovereign debt ratings of certain European countries, including Greece, Portugal, Cyprus and, more recently, France and the Netherlands, which have caused further volatility in the capital markets (Spain's ratings outlook was raised to stable from negative by Fitch and Standard & Poor's during November 2013 and by Moody's at the beginning of December 2013, reflecting resumed growth in the economy). Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Group, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates would entail a repricing of loans, which would result in a reduction of volume, and may also have an adverse effect on the Group's interest margins. A further economic downturn, especially in Spain and other European countries, could also result in a further reduction in business activity, a consequent loss of income for the Group and further losses on the Group's assets resulting in a further reduction of its capital resources.

In addition, a premature removal of the aforementioned support measures as a result of perceived improvement in the financial markets and concerns over the sustainability of public deficits could result in a prolonged economic downturn and further instability in the financial markets, which could have a material adverse effect on the Guarantor's business, financial condition and results of operation.

*The Bank 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. The Bank's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the European Union, the United States and the other markets where 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 the Bank expects to continue for the foreseeable future. As a result, the Bank may further be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability. The regulations which most significantly affect the Bank, or which could most significantly affect the Bank in the future, include regulations relating to capital and provisions requirements, which have become increasingly more strict in the past three years, steps taken towards achieving a fiscal and banking union in the European Union, and regulatory reforms in the United States. These risks are discussed in further detail below.

In addition, the Bank is subject to substantial regulation relating to other matters such as liquidity. The Bank 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 Bank's net interest margin.

The Bank is also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

Moreover, the Bank's regulators, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognise further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition.

Spanish regulatory developments include (i) Royal Decree-Law 2/2012, of 3 February and Law 8/2012 of 30 October, which increased coverage requirements to be met by 31 December 2012 for performing and non-performing real estate assets, (ii) Law 9/2012, of 14 November ("**Law 9/2012**") which established a new regime on restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of restructuring and resolution processes, and which was based on the June 2012 draft of Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**RRD**"); and (iii) Royal Decree-Law 14/2013, of 29 November ("**RD-L 14/2013**") and Law 10/2014, which incorporated the Capital Requirements Directive IV ("**CRD IV**") into Spanish law, although certain regulatory developments in this area are still pending as at the date of this Base Prospectus.

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 Bank's business, results of operations and financial condition. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulations, could adversely affect the Bank's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulations.

#### *Capital requirements*

Increasingly onerous capital requirements constitute one of the Bank's main regulatory concerns.

As a Spanish financial institution, the Bank is subject to Regulation (EU) 575/2013 of 26 June on prudential requirements for credit institutions and investment firms (which is directly applicable in EU member states, without the need to be implemented by national laws) ("**CRR**") and the CRD IV, through which the European Union implemented the Basel III capital standards from 1 January 2014. These capital standards are in the process of being phased in until 1 January 2019. The core regulation in the solvency of credit entities is, therefore, the CRR, which is complemented by several binding technical standards, all of them directly applicable in all EU member states, without the need to be implemented by national laws. The implementation of the CRD IV in Spain has taken place through RD-L 14/2013 and Law 10/2014 and a new Bank of Spain Circular 2/2014, of 31 January. Notwithstanding the above, further regulatory developments in this area remain pending as at the date of this Base Prospectus.

The new regulatory regime has, among other things, increased the level of capital required by means of a combined set of capital buffers that entities must comply with from 2016 onwards. In this regard, according to Law 10/2014, for those entities not meeting the combined capital buffer requirement distributions relating to common equity tier 1 ("**CET1**") capital, variable remuneration or discretionary pension revenues and distributions relating to additional tier 1 capital will be subject to restrictions due to the resulting implications from the calculation of the maximum distributable amount in the manner to be provided in the regulation implementing Law 10/2014.

Two of these buffers are mandatory: the capital conservation buffer and the buffer in place for institutions which are deemed to be of global systemic importance (with the list of such institutions being updated annually by the European Union's Financial Stability Board). The Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the buffer for institutions deemed of local systemic importance and the systemic risk buffer (to prevent systemic or macro prudential risks). The entry into

force of the new Single Supervisory Mechanism ("SSM") on 4 November 2014 will give the ECB the possibility of providing some recommendations in this respect.

Additionally, transitory capital rules were imposed in advance of the entering into force of the CRD IV. RD-L 14/2013 enabled the Bank of Spain, until the end of 2014, to prevent institutions from reducing their capital below the level existing at the end of 2013 in order to meet the policy conditions of the European financial support framework (a memorandum of understanding which was signed in July 2012). The European Banking Authority (the "EBA") further issued a recommendation on 22 July 2013 on the preservation of CET1 capital during the transition to the CRD IV implementation. This recommendation provides for the maintenance of a nominal floor of capital denominated in the relevant reporting currency of CET1 capital corresponding to the amount of capital needed as at 30 June 2012 to meet the EBA recommendation of 8 December 2011 relating to a 9 per cent. CET1 ratio, together with a sovereign buffer, the amount of which is determined by an entity's exposure to sovereign debt. Competent authorities may waive this requirement for institutions which maintain a minimum of 7 per cent. of CET1 capital under the CRD IV rules applied after the transitional period.

Basel III implementation differs across jurisdictions in terms of timing and the applicable rules. For example, Basel III implementation in the United States will be effective in 2015 for credit institutions the total consolidated assets of which are less than US\$250 million. The lack of uniformity in implemented rules may lead to an uneven playing field and to competition distortions. Moreover, regulatory fragmentation, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect the Bank and could undermine its profitability.

At its meeting of 12 January 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in the CRD IV, to promote consistent disclosure, starting on 1 January 2015. There will be a mandatory minimum capital requirement on 1 January 2018, with an initial minimum leverage ratio of 3 per cent. that can be raised after calibration, if European authorities so decide.

In November 2014, the Basel Committee published a paper with its responses to address excessive variability in risk-weighted asset calculations with the objective of improving consistency and comparability in bank capital ratios, and thereby restoring confidence in risk-weighted capital ratios. The proposed new standard promotes greater consistency in the way banks disclose information about risks, as well as their risk measurement and management. The aim of the revisions is to enable market participants to compare banks' disclosures of their risk-weighted assets and to assess more effectively a bank's overall capital adequacy.

There can be no assurance that the implementation of these new standards or recommendations will not adversely affect the Bank's ability to pay dividends, 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 Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

#### *Tax treatment of deferred tax assets following the implementation of the CRD IV*

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

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

Due to these differences and the greater impact of the requirements of the CRD IV with respect to DTAs, the Spanish regulator implemented certain amendments to the Spanish Law on Corporate Income Tax (Royal Decree Law 4/2004 of 5 March, as amended) through RD-L 14/2013, which also provided for a transitional regime for DTAs generated before 1 January 2014. These amendments enable certain DTAs

to be treated as a direct claim against the tax authorities if a Spanish bank is unable to reverse the relevant differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This will, therefore, allow a Spanish bank not to deduct such DTAs from its regulatory capital. The transitional regime provides for a period in which only a percentage (which increases yearly) of the applicable DTAs will have to be deducted.

There can be no assurance that the tax amendments implemented by RD-L 14/2013 will not be challenged by the European Commission, that the final interpretation of these amendments will not change and that Spanish banks will ultimately be allowed to maintain certain DTAs as regulatory capital. If this regulation is challenged, this may negatively affect the Bank's regulatory capital and therefore its ability to pay dividends 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 a material adverse effect on the Bank's business, financial condition and results of operations.

#### *Contributions for assisting in the restructuring of the Spanish banking sector*

Royal Decree-Law 6/2013 of 22 March, on protection for holders of certain savings and investment products and other financial measures, included a requirement for banks, including therefore the Guarantor, to make an exceptional one-off contribution to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*), in addition to the annual contribution to be made by member institutions, equal to €3.00 per each €1,000 of deposits held as of 31 December 2012. The purpose of such contribution was for the Deposit Guarantee Fund to be able to purchase at market prices the unlisted shares of certain Spanish financial institutions involved in restructuring or resolution processes under Law 9/2012. There can be no assurance that additional funding requirements will not be imposed by the Spanish authorities for assisting in the restructuring of the Spanish banking sector.

#### *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 will 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 Single Resolution Mechanism ("**SRM**").

The SSM will help to make the banking sector more transparent, unified and safe. The SSM Regulation was passed in November 2013 with effect from 1 January 2014. On 4 November 2014, the ECB assumed its new supervisory responsibilities within the SSM, in particular direct supervision of the 120 largest European banks (including the Bank). In preparation for this step, between November 2013 and October 2014 the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. On 26 October 2014, the ECB announced the results of the comprehensive assessment.

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM will result in the direct supervision of more than 120 financial institutions, among them the Bank, and indirect supervision of around 3,500 financial institutions. The new supervisor will be one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 18, and soon 19, supervisory authorities that will be part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, this new body will represent 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. Regulation (EU) No.

806/2014 of the European Parliament and the Council (the SRM Regulation), which was passed on 15 July 2014, and takes legal effect from 1 January 2015, 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. A new Single Resolution Board will begin operation from 1 January 2015 but it will not fully assume its resolution powers until 1 January 2016. From that date onwards the Single Resolution Fund will also be in place, funded by contributions from European banks. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in has already been applied to cover capital shortfalls (in line with the RRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Guarantor's main supervisory authority may have a material impact on the Guarantor's business, financial condition and results of operations. In particular, the RRD and Directive 2014/49/EU on deposit guarantee schemes were published in the Official Journal of the EU on 12 June 2014. The RRD will be effective from 1 January 2015 and the bail-in tool must be operational beginning no later than 1 January 2016. A minimum 8 per cent. bail-in of a bank's total liabilities and own funds (including senior debt and uncovered deposits) 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 June 2014 (although the final regulation on direct recapitalisation by the ESM is still pending).

In addition, on 29 January 2014, the European Commission released its proposal on the structural reforms of the European banking sector that will impose new constraints on the structure of European banks. The proposal aims at ensuring the harmonisation between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd-Frank Act (also known as the Volcker Rule) and a mechanism to potentially require the separation of trading activities (including market making), such as in the Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

#### *Taxation of the financial sector*

On 14 February 2013 the European Commission published its proposal for a Council Directive implementing enhanced cooperation in the area of a financial transaction tax ("FTT"), which was intended to take effect on 1 January 2014 but negotiations are still ongoing. The proposed Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the recent crisis and creating a level playing field with other sectors from a taxation point of view. A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. On 4 July, 2014, Royal Decree-Law 8/2014, of 4 July was introduced in Spain setting forth a tax rate of 0.03 per cent. on bank deposits in Spain. Such tax was established in 2013 (but previously with a 0 per cent. rate) and is payable annually by Spanish banks. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates. Any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

#### *Bail in of financial sector companies.*

Following the bail outs which occurred worldwide within the financial sector since the crisis of 2008 and which included government capitalisations and nationalisations of banks, it is possible that any future change in relevant regulatory framework, including following discussions within the European institutions, could be used in such a way as to result in notes issued by banks or bank affiliates absorbing losses upon the occurrence of certain events, namely (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; or (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority. In this case the relevant notes may (amongst other things) be required to be written off



or otherwise be required to fully or partially absorb losses before tax payers are exposed to loss. Accordingly, the operation of any such future change in relevant regulatory framework may have an adverse effect on the position of holders of the Notes.

*The Guarantor's business is substantially dependent on the Spanish economy.*

As the Guarantor's activity is mainly concentrated in Spain, its performance is influenced by the cyclical nature of financial activity in that country, which is in turn impacted by both domestic and international economic and political events.

After rapid economic growth until 2007, Spanish gross domestic product ("**GDP**") contracted by 3.7 per cent. and 0.3 per cent. in 2009 and in 2010 respectively, grew by 0.4 per cent. in 2011, contracted by 1.6 per cent. in 2012 and contracted by 1.2 per cent. in 2013. The International Monetary Fund estimates that GDP in Spain will increase by 0.9 per cent. in 2014. GDP forecasts for the Spanish economy could be revised downwards if measures adopted in response to the economic crisis are not as effective as expected or if public deficit figures force the government to implement additional restrictive measures. In addition to the tightening of fiscal policies in order to correct its economic imbalances, Spain has seen confidence erode, because of weaker economic activity and, above all, a deterioration in employment in 2012 and 2013. The effects of the financial crisis have been particularly pronounced in Spain given Spain's heightened need for foreign financing as reflected by its high public deficit. Real or perceived difficulties in making the payments associated with this deficit can further damage Spain's economic situation and increase the costs of financing its public deficit.

The Spanish economy has been affected by the slowdown in global growth and is particularly sensitive to economic conditions in the rest of the European Economic Area, the primary market for Spanish goods and services exports. The pace of recovery in private domestic demand in the short- and medium-term is expected to continue to be hindered by weak economic fundamentals and the effects of on-going adjustments in the private sector, such as private deleveraging.

There are diverse factors influencing the Spanish economy that could adversely affect the Guarantor's business including, in particular, the structural adjustment taking place in the real estate sector, which is associated with reduced access to credit for property purchases and contracted residential investment; and the restructuring of the financial sector. In addition, increases in interest rates in the Euro could also hinder the recovery of the Spanish economy.

There can be no assurance that any adverse changes that may affect the Spanish economy, including but not limited to, downward movements in employment and the housing market or other factors which may contribute to an increase in Spain's fiscal deficit, will not negatively affect the business and profitability of the Guarantor or the Group.

The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. Given the concentration of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on the Group's financial condition and results of operations.

In addition, the weakening in the Group's customer creditworthiness could impact its capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its risk-weighted assets ("**RWA**"), in accordance with the CRD IV package (including Royal Decree Law 14/2013 that partially implemented the CRD IV in Spain). The RWA consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of the Group's assets, which include its lending portfolio. If a customer's repayment capacity declines, the Group lowers the customer's rating, which results in an increase in its RWA. In addition, substantial market volatility, a widening of credit spreads, a change in the regulatory treatment of certain positions, changes in foreign exchange rates, decreases in collateral ratios as a consequence of the deterioration of the market value of assets pledged as collateral, or a further deterioration of the economic environment, among other things, could result in an increase in the Group's RWA, which potentially may reduce its capital adequacy ratios. If the Group were to experience a reduction in its capital adequacy ratios, and could not raise further capital, it would have to reduce its lending or investments in other operations. Any of the foregoing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

Market turmoil and economic recession, especially in Spain, could materially and adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn increase the Group's non-performing loan ratios, impair the Group's loan and other financial assets and result in decreased demand for borrowings in general. In the context of the recovery from the recent market turmoil and economic recession, and with high unemployment coupled with low consumer spending, the value of assets collateralising the Group's secured loans, including homes and other real estate, could still decline significantly, which could result in the impairment of the value of the Group's loan assets. In addition, the Group's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Group's fee and commission income. Any of the conditions described above could have a material adverse effect on the Group's business, financial condition and results of operations.

*Increased exposure to the real estate market has made the Guarantor more vulnerable to market fluctuations in the price of real estate.*

As a material portion of the Guarantor's loan portfolio is linked to the real estate market, it is exposed to market fluctuations in the price of real estate.

From 2002-2007, population increase, economic growth and the strength of the labour market in Spain, together with the decrease in interest rates within the EU, led to an increase in demand for mortgage loans. This contributed to increased real estate prices in Spain, which, in turn, has led to speculation that there could be a significant downturn in the Spanish real estate market. During late 2007, the housing market began to adjust in Spain as a result of excess supply and higher interest rates. Since 2008, as economic growth came to a halt in Spain, housing oversupply has persisted, unemployment has continued to increase, housing demand has continued to decrease and home prices have declined while mortgage delinquencies have increased. Further, recent government measures, such as the increase in the value added tax rate of real estate transactions may lead to further declines in demand for property. These trends, especially higher interest rates and unemployment rates coupled with declining real estate prices, could have a material adverse impact on the Guarantor's mortgage payment delinquency rates, which in turn could have a material adverse effect on its business, financial condition and results of operations.

In addition, the decline in property prices decreases the value of the real estate securing the Guarantor's mortgage loans and adversely affects the credit quality of property developers to whom the Guarantor has lent. A further decrease in real estate prices may occur including to levels below the outstanding principal balance on these loans, which may require the Guarantor to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. Decreasing real estate prices therefore increase the risk of loss and decrease the value of the Guarantor's real estate loan portfolio, which could have a material adverse effect on its business, results of operation and financial condition.

*Property risk, financing for property construction and development business.*

The Guarantor has lending exposure to risks in the property development and construction sector.

At 31 December 2013, loans for property construction and/or development amounted to €20,274 million, which is 19.9 per cent. of the Guarantor's total gross lending to customers. Specific coverage (non-performing loans ("NPLs") and sub-standard) for this exposure amounted to €4,962 million at the same date.

The NPL ratio on loans to real-estate developers was 57 per cent. at 31 December 2013. Despite the ratio of NPLs or loans in arrears, the remainder of the Guarantor's property construction and development loan portfolio showed no past due amounts, even after five years of severe crisis in the sector and an increasingly demanding economic environment.

Of the €20,274 million indicated, €13,756 million correspond to loans secured by first ranking mortgages, €152 million correspond to loans secured by pledges and €6,366 million correspond to loans personally guaranteed and/or secured by second ranking mortgages.

Within the secured loans, only €3,885 million (19.2 per cent. of the total) qualify as "other secured transactions" (such as: collateral other than finished buildings, buildings under construction, or land).

The net carrying amount of the Guarantor's portfolio of property in Spain acquired or foreclosed at 31 December 2013 was €5,512 million and was covered by net provisions of €5,165 million. Accumulated impairment specific provisions on exposure to the real estate sector stood at €10,127 million, €11,097 million at year-end 2012 and €2,630 million at 31 December 2011.

In addition to the loans for property construction and/or development mentioned above, there is also a portfolio of investments arising from foreclosures in Spain consisting of rental assets (offices, hotels, shopping centres and commercial premises, industrial premises and housing) with a net carrying amount of €654 million and provisions of €325 million as of 31 December 2013, as well as other equity instruments with a net carrying amount of €260 million and collateral coverage of €330 million. Any defaults by borrowers in the property construction or development sector could have a material adverse effect on the Group's business, financial condition and results of operations.

*Household and corporate indebtedness could endanger the Guarantor's asset quality and future revenues.*

The indebtedness of Spanish households and firms has increased in recent years, which represents increased risk for the Spanish banking system. The increase of loans referenced to variable interest rates make debt service on such loans more vulnerable to changes in interest rates than in the past. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on the Group's loan portfolio and, as a result, on its financial condition and results of operations. Moreover, the increase in households' and firms' indebtedness also limits their ability to incur additional debt, decreasing the number of new products the Guarantor may otherwise be able to sell them and limiting the Group's ability to attract new customers in Spain which satisfy its credit standards, which may have an adverse effect on the Guarantor's business, financial position and results of operations, as well as the Group's ability to achieve its growth plans.

*The Guarantor faces increasing competition in its business lines.*

The markets in which the Guarantor operates are highly competitive. Financial sector reforms in Spain and in the European Union have increased competition among both local and foreign financial institutions, and the Guarantor believes that this trend will continue. There is also a trend towards consolidation in the banking industry, which has created larger and stronger banks with which the Guarantor must compete. In 2007, there were over 50 Spanish banks; as of the date of this Base Prospectus, there are fewer than 20. 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, regional banks consolidate into larger, more solvent and competitive entities, and that overcapacity be reduced.

Some of the Guarantor's competitors, including well-established domestic banks in each of the regional Spanish markets in which it operates, as well as international banks with operations in the regions in which the Guarantor operates, may have better banking relationships with corporate and retail clients that comprise its target customer bases and may have greater resources.

In addition, the Guarantor faces increased pressure to meet rising customer demands to provide new banking products. There is no guarantee that the Guarantor's management and employees will succeed in adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect its ability to successfully compete in its primary markets.

Further, the number of banking transactions conducted over the internet in the markets in which the Guarantor operates has grown in recent years and is expected to grow further. The Guarantor may be unable to compete with other banks that offer more extensive online services to their customers than it currently offers to its customers. The Guarantor also faces competition from non-bank financial institutions and other entities, such as leasing companies, mutual funds, pension funds and insurance companies and, to a lesser extent, department stores (for some consumer finance products).

The current economic environment in Spain has generated significant competition on the basis of interest rates among lending institutions in the demand for all types of deposits. This competition has prompted financial institutions to offer increasingly higher interest rates on deposits, which generates higher interest expenses without a corresponding increase in interest income. Increasing competitive pressures could

cause the Guarantor to lose customer deposits to its competitors or force the Guarantor to offer interest rates on deposits that are higher than the rates received on its loan products. As a result, the Guarantor could suffer losses which could have a material adverse effect on its business, results of operations and financial condition.

The Guarantor also faces competition from non-bank competitors, such as leasing and factoring financial providers, mutual funds, pension funds and insurance companies. The Guarantor cannot be certain that competition from these competitors will not adversely affect the Guarantor's competitive position.

*Liquidity constraints could lead to increased financing costs or changes in the lending practices of the Guarantor.*

Ready access to funds is essential to any banking business, including that of the Guarantor. The Guarantor's ability to raise funds may be impaired by factors that are not specific to its operations, such as general market conditions, disruption of the financial markets or negative views about the prospects of the industries to which the Guarantor provides a large proportion of loans, which could in turn generate a negative view of the Guarantor's liquidity among creditors and result in a less favourable credit rating, higher borrowing costs and poorer access to funds. The Guarantor may be unable to secure additional funding in the international capital markets if conditions in these markets, or its credit ratings, were to deteriorate.

Further, customer deposits are a significant source of funding for the Guarantor. There can be no assurance that in the event that the Guarantor's depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans, it will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of the Group's assets. A shortage of funds from retail deposits could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, as sources of liquidity introduced as extraordinary measures in response to the financial crisis are withdrawn (such as financing from the ECB, the Spanish treasury, the *Instituto Oficial de Crédito* and various Spanish public administrations), expansionary economic policies are removed from the market and the market adjusts accordingly, there can be no assurance that the Guarantor will be able to continue funding its business or maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets.

There can be no assurance that, in the event that depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans or in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which the Guarantor operates, the Guarantor will be able to meet its liquidity needs or to do so without incurring higher funding costs or having to liquidate certain of its assets which could reduce its asset management income and have a material adverse effect on its interest margins, as well as a material adverse effect on the Guarantor's business, financial condition and results of operations.

*Risks concerning borrower credit quality and general economic conditions are inherent in the Group's business.*

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in Spanish or global economic conditions, or arising from systemic risks in the financial systems, could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of allowances for credit losses. Deterioration in the economies in which the Group operates could reduce the profit margins for the Group's banking and financial services businesses.

*The Group is exposed to risks faced by other financial institutions.*

The Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. These liquidity concerns have had, and may continue to have, a chilling

effect on inter-institutional financial transactions in general. Many of the routine transactions the Group enters into expose it to significant credit risk in the event of default by one of the Group's significant counterparties. Despite the risk control measures the Group have in place, a default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

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

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

*The Group may generate lower revenues from brokerage and other commission- and fee-based businesses.*

Market downturns have led to declines in the volume of transactions that the Group executes for its customers and to declines in the Group's non-interest revenues. In addition, because the fees that the Group charges for managing its clients' portfolios are in many cases based on the value or performance of those portfolios which have reduced in value and which have been subject to an increased amount of withdrawals, the revenues the Group receives from its asset management and private banking and custody businesses have been reduced.

In addition to the effects of the market downturn, below-market performance by the Group's mutual funds may result in increased withdrawals and reduced inflows, which would reduce the revenue the Group receives from its asset management business.

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

The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. In some of the Group's business, protracted adverse market movements, particularly asset price decline, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if the Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the Group for which there are less liquid markets. Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that the Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group does not anticipate.

The volatility of world equity markets due to the recent economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations could become a permanent impairment which would be subject to write-offs against the Group's results.

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

The Group's risk management techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the Group's qualitative tools and metrics for managing risk are based upon the Group's use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. The Group's losses thus could be significantly greater than the historical measures indicate. In addition, the Group's quantified modelling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove

insufficient, exposing it to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could harm the Group's reputation as well as its revenues and profits.

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

Group companies are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although the Group believes that its current policies and procedures are sufficient to comply with applicable rules and regulations, it cannot guarantee that its Group-wide anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations.

*Volatility in interest rates may negatively affect the Group's net interest income and increase the Group's non-performing loan portfolio.*

Changes in market interest rates could affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income leading to a reduction in the Group's net interest income. Income from treasury operations is particularly vulnerable to interest rate volatility. Interest rates are highly sensitive to many factors beyond the Group's control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

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

Changes in interest rates may therefore have a material adverse effect on the Group's interest margins as well as the Guarantor's business, financial condition and results of operations.

*Operational risks are inherent in the Group's business.*

The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented.

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

The banking business involves the routine handling of large amounts of money, creating the risk of theft, fraud or deception carried out by clients, third-party agents, employees and managers. The employees of the Group may also commit errors that could subject it to financial claims for negligence and otherwise, as well as regulatory actions. Despite the risk management measures put in place by the Guarantor, there can be no assurance that funds under its control could lead to inappropriate or illegal manners, which could expose the Guarantor to liability to customers, governmental sanctions, negative publicity, loss of customers and other negative consequences.

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

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

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

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

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, and conduct by companies in which the Group holds strategic investments or joint venture partners, which could increase the number of litigation claims and the amount of damages asserted against the Group or subject the Group to regulatory enforcement actions, fines and penalties.

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

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

Any downgrade in the Guarantor's ratings could increase its borrowing costs, limit its access to capital markets and adversely affect the ability of the Guarantor's business to sell or market its products, engage in business transactions—particularly longer-term and derivatives transactions—and retain its customers. This, in turn, could reduce the Guarantor's liquidity and have an adverse effect on its financial position and results of operations.

Since the Guarantor is a Spanish company with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. Any decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a decline in the Guarantor's credit ratings.

In addition, the Group holds a substantial amount of securities issued by the Kingdom of Spain, autonomous communities within Spain and other Spanish issuers. Any decline in the Kingdom of Spain's credit ratings could also adversely affect the value of the Kingdom of Spain's and other Spanish issuers' respective securities held by the Group in various portfolios or otherwise materially adversely affect the Group's business, financial condition and results of operations. Furthermore, the counterparties to many of the Group's loan agreements could be similarly affected by any decline in the Kingdom of Spain's credit rating, which could limit their ability to raise additional capital or otherwise adversely affect their ability to repay their outstanding commitments to the Group and, in turn, materially and adversely affect the Group's business, financial condition and results of operations.

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

<b>Agency</b>	<b>Long term senior unsecured</b>	<b>Short term senior unsecured</b>	<b>Individual/ Financial Strength</b>	<b>Outlook</b>
Moody's	Ba3	NP	b1	Negative
S&P.....	B+	B	b-	Negative
Fitch.....	BB+	B	bb-	Negative

Agency	Long term senior unsecured	Short term senior unsecured	Individual/ Financial Strength	Outlook
DBRS .....	A (low)	R-1 (low)	BBB (High)	Negative

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. With regard to those rating agencies that have a negative outlook on the Group, there can be no assurances that such agencies will revise such outlooks upward. The Group's failure to maintain favourable ratings and outlooks could increase the cost of its funding and adversely affect the Group's interest margins.

In addition, certain countries in Europe, including Spain, have relatively large sovereign debts or fiscal deficits, or both. Several EU countries have recently experienced significant increases in their cost of funding which, in the case of certain countries has led them to seek financial assistance from the European Commission and the International Monetary Fund. Spain has also recently experienced increases in its cost of funding due to concerns regarding rising sovereign debt levels. Any downgrade in the credit rating of the Kingdom of Spain or increasing concerns about its ability to make payments on its sovereign debt could lead to an increase in the Guarantor's borrowing costs, limit its access to capital markets and adversely affect the sale or marketing of its products, its participation in business transactions and its ability to retain customers, which could adversely affect its liquidity and have a material adverse effect on its business, financial condition and results of operation.

*The Guarantor's insurance coverage may not adequately cover its losses.*

Due to the nature of the Guarantor's operations and the nature of the risks that it faces, there can be no assurance that the insurance coverage it maintains is adequate. If the Guarantor 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.

### **Risk in Relation to the Notes**

*There is no active trading market for the Notes.*

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Notes to be admitted to the Official List of the Irish Stock Exchange Limited and to trading on the Main Securities Market of the Irish Stock Exchange Limited, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop.

Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

*The Notes may be redeemed prior to maturity.*

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

If the Final Terms specify that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be



relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

*Global Notes held in a clearing system.*

Because the Global Notes will be held by or on behalf of Euroclear and/or Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communications with the Issuer and/or the Guarantor.

Notes issued under the Programme may be represented by one or more global Notes. Such global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant global Note, investors will not be entitled to receive definitive Notes.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Notes. While the Notes are represented by one or more global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more global Notes the Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depository or common safekeeper for Euroclear and/or Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global Notes.

Holders of beneficial interests in the global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the global Notes will not have a direct right under the global Notes to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

*The interest rate on Fixed Reset Notes will reset on each Reset Date, which can be expected to affect interest payments on an investment in Fixed Reset Notes and could affect the market value of Fixed Reset Notes.*

Fixed Reset Notes will initially bear interest at the Initial Interest Rate until (but excluding) the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the Reset Margin as determined by the Fiscal Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate**"). The Subsequent Reset Rate for any Reset Period could be less than the Initial Interest Rate or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Fixed Reset Notes.

*Uncertainty as to value of Notes and interest to be paid.*

Investment in fixed rates Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate Notes (as applicable). Investment in floating rate Notes involves the risk that interest rates may vary from time to time, resulting in variable interest payments to Noteholders.

*An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's and the Guarantor's insolvency.*

The Issuer's obligations under Subordinated Notes, and the Guarantor's obligations under the guarantee in respect of Subordinated Notes, will be unsecured and subordinated and will rank junior in priority of payment to all unsubordinated obligations of the Issuer and the Guarantor, respectively. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is an enhanced risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer and the Guarantor become insolvent.

After payment in full of unsubordinated claims, but before distributions to shareholders, under article 92 of the Insolvency Law (as defined below), the Issuer and the Guarantor will meet subordinated claims in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debts (including the Subordinated Notes and claims under the related guarantee in respect of them); (iii) interest (including accrued and unpaid interest due on the Subordinated Notes and under the related guarantee in respect of them); (iv) fines; (v) claims of creditors which are specially related to the Issuer or the Guarantor as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer or the Guarantor where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) claims arising from contracts with reciprocal obligations as referred to in articles 61, 62, 68 and 69 of the Insolvency Law, wherever the court rules, prior to the administrators' report of insolvency (*administración concursal*) that the creditor repeatedly impedes the fulfilment of the contract against the interest of the insolvency.

*The RRD is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under the RRD could materially affect the value of any Notes.*

The RRD, which was published in the Official Journal of the EU on 12 June 2014, is designed to provide European authorities with a credible set of tools from 1 January 2015 to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The RRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority 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 resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including Senior Notes and Subordinated Notes to equity (the "**general bail-in tool**"), which equity could also be subject to any future application of the general bail-in tool.

The RRD modifies the previous hierarchy of claims approach. Under the RRD, all liabilities will rank based on the following sequence (in descending order): i) CET1, ii) Additional Tier 1 or other equivalent instruments, iii) Tier 2 instruments or other equivalent instruments, iv) ordinary unsecured and non-preferred creditors, including the Notes, except deposits from natural persons and micro, small and medium-sized enterprises which exceed the coverage level provided for by the deposit guarantee scheme in Article 6 of Directive 2014/49/EU.

The RRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

In addition to the general bail-in tool, the RRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as Subordinated Notes at the point of non-viability ("**non-viability loss absorption**") which may be adopted before any other

tool. See "*Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool, at the point of non-viability of the Guarantor or pursuant to certain specific loss absorption measures in Spain*".

While the RRD will be applied by Member States from 1 January 2015, the final deadline for implementation of the general bail-in tool is 1 January 2016. Spain has already implemented, by virtue of Law 9/2012, a regime on the restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of the restructuring and resolution process, which was based on the June, 2012 draft of the RRD. The Spanish government therefore already has certain powers and authorities which are in line with those included in the RRD (See "*Noteholders may not be able to exercise their rights in the event of any resolution measure under Law 9/2012*" below).

The powers set out in the RRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Once the RRD is implemented, holders of Notes may be subject to write-down or conversion into equity on any application of the general bail-in tool and, in the case of Subordinated Notes, non-viability loss absorption, which may result in such holders losing some or all of their investment. The exercise of any power under the RRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of any Notes and/or the ability of the Issuer and the Guarantor to satisfy their respective obligations under any Notes and the Guarantee.

*Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool, at the point of non-viability of the Guarantor or pursuant to certain specific loss absorption measures in Spain.*

The RRD contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool (see "*The RRD is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under the RRD could materially affect the value of any Notes*"). As a result, resolution authorities may require the permanent write down of capital instruments such as Subordinated Notes (which write-down may be in full) or the conversion of them into shares of the Guarantor at the point of non-viability (which shares may also be subject to any application of the general bail-in tool) and before any other resolution action is taken.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the RRD is the point at which the relevant authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Subordinated Notes) are written down or converted into equity or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution would no longer be viable. 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. Furthermore, the determination that all or part of the principal amount of any relevant capital instruments (such as the Subordinated Notes) will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the institution's control. This determination will be made by the institution's regulators and there may be many factors, including factors not directly related to the institution, which could result in such a determination.

In addition to the above, the Spanish government, anticipated the rules to be implemented pursuant to the RRD by Law 9/2012, which has already introduced certain specific loss absorption measures in Spain that may be applied by the Guarantor, the Bank of Spain or the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*, the "**FROB**").

The application of such loss absorption measures may be requested by the Guarantor or imposed by the Bank of Spain or the FROB if the Guarantor or its group of consolidated credit entities is in breach of (or there are sufficient objective elements pursuant to which it is reasonable to foresee that they may breach) applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls. In any such case, the Guarantor and, indirectly, the Issuer may be subject to a procedure of "early intervention" (*actuación temprana*), "restructuring" (*reestructuración*) or "resolution" (*resolución*) (as each such term is defined in Law 9/2012). The restructuring and resolution procedures may involve the application of loss absorption measures which may include, among others: (i) the deferment, suspension,

elimination or amendment of certain rights, obligations, terms and conditions of any Subordinated Notes, (ii) the repurchase of any Subordinated Notes at a price set by the Bank of Spain or the FROB, (iii) the exchange of any Subordinated Notes for capital instruments of the Guarantor, (iv) the write down of any interest and/or principal amount of the Subordinated Notes, and (v) the redemption of any Subordinated Notes. Law 9/2012 does not include any grandfathering provisions and applies equally to those capital instruments such as the Subordinated Notes that are already in issue as well as any future issues of such instruments and Subordinated Notes.

It is presently unclear what the implications of the RRD's implementation will be for the loss absorption measures introduced in Spain by Law 9/2012 and as to what extent, if any, the provisions of Law 9/2012 may need to change upon implementation of the RRD.

The obligations of the Issuer under Subordinated Notes and of the Guarantor under the Subordinated Guarantee may, therefore, be subject to write-down or loss absorption at the point of non-viability or on any application of the general bail-in tool or otherwise on any bail-in or pursuant to the loss absorption measures under Law 9/2012, which may result in holders of Subordinated Notes losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of any Subordinated Notes and/or the ability of the Issuer and the Guarantor to satisfy their respective obligations under any Subordinated Notes and the Subordinated Guarantee.

*Claims of Holders under the Senior Notes are effectively junior to those of certain other creditors and from 1 January 2016 may also be subject to bail-in.*

The Senior Notes and the Senior Guarantee are unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively. Subject to statutory preferences, the Senior Notes and the Senior Guarantee will rank equally with any of the Issuer's and the Guarantor's other unsecured and unsubordinated indebtedness and, in the case of the Senior Guarantee, senior to the Subordinated Guarantee. However, the Senior Notes and the Senior Guarantee will be effectively subordinated to all of, respectively, the Issuer's and the Guarantor's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other preferential obligations under Spanish law.

The RRD contemplates that Senior Notes may be subject to the application of the general bail-in tool (see "*The RRD is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under the RRD could materially affect the value of any Notes*").

*Subordinated Notes may not be redeemed prior to maturity at the option of Noteholders, including in the event of non-payment of principal or interest.*

Pursuant to Bank of Spain Circular 3/2008, of 22nd May (*Circular 3/2008, de 22 de mayo, del Banco de España*), the Issuer is prohibited from including in the terms and conditions of any Subordinated Notes terms that would oblige it to redeem such Subordinated Notes prior to their stated maturity at the option or request of holders of the Subordinated Notes. As a result, the terms and conditions of the Subordinated Notes do not include provisions allowing for early redemption of Subordinated Notes at the option of holders.

In addition, the CRR provides that the provisions governing Subordinated Notes should not give the holders the right to accelerate the future scheduled payment of interest or principal, other than in the insolvency or liquidation of the Issuer. As a result, holders of Subordinated Notes will not have any rights under the terms and conditions of the Subordinated Notes to request the early redemption of such Subordinated Notes in the event of any failure by the Issuer to pay principal or interest in respect of such Subordinated Notes or in the case of default by the Issuer or any company within its group under any other indebtedness.

*General considerations.*

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or the Guarantor and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments

and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers 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 Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers 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.

*Risks Relating to the Insolvency Law.*

Law 22/2003 (*Ley Concursal*) dated 9 July 2003 ("**Law 22/2003**" or the "**Insolvency Law**"), which came into force on 1 September 2004, provides, among other things, that: (i) any claim may become subordinated if it is not included in a company's accounts or otherwise reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to fifteen days), (ii) provisions in a contract granting one party the right to terminate on the other's insolvency may not be enforceable, and (iii) interest (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated.

As such, certain provisions of the Insolvency Law could affect the ranking of the Notes or claims relating to the Notes on the insolvency of the Issuer.

*Holders will not be able to exercise their rights on an event of default in the event of the adoption of any resolution measure under Law 9/2012.*

As discussed above (see "*The RRD is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any action under the RRD could materially affect the value of any Notes*"), the Guarantor and, indirectly, the Issuer may be subject to a procedure of early intervention, restructuring or resolution under Law 9/2012 if the Guarantor or its group of consolidated credit entities is in breach of (or there are sufficient objective elements pursuant to which it is reasonable to foresee that they may breach) applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls.

Pursuant to Law 9/2012 the adoption of any early intervention, restructuring or resolution procedure shall not itself constitute an event of default or entitle any counterparty of the Issuer or the Guarantor to exercise any rights it may otherwise have in respect thereof. Any provision providing for such rights shall further be deemed not to apply, although this does not limit the ability of a counterparty to declare any event of default and exercise its rights accordingly where an event of default arises either before or after the exercise of any such procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to Law 9/2012.

Accordingly, while the Notes are governed by English law and the Issuer and the Guarantor submit to the exclusive jurisdiction of the English courts, the above provisions of Law 9/2012 may limit the enforcement by a holder of any rights it may otherwise have on the occurrence of any Event of Default. In addition, pursuant to Directive 2001/24/EC on the reorganisation and winding up of credit institutions in EU Member States, Law 9/2012 and The Credit Institutions (Reorganisation and Winding up) Regulations 2004 of the United Kingdom, any resolution procedure (and the loss absorption measures in a restructuring scenario) is specified under Law 9/2012 to be a "reorganisation measure" for the purposes of Directive 2001/24/EC and, as such, will be effective in the United Kingdom in relation to any Notes as if it were part of the general law of insolvency of the United Kingdom. Given the absence of any grandfathering provisions under Law 9/2012, this is the case both for those Notes already in issue as well as any Notes issued in the future.

Any enforcement by a holder of its rights under the Notes upon the occurrence of an Event of Default following the adoption of any resolution procedure will, therefore, be subject to the relevant provisions of Law 9/2012 in relation to the exercise of the relevant measures and powers pursuant to such procedure, which may include, among others, the sale of the Guarantor's business, the transfer of assets or liabilities of the Guarantor to a bridge bank and/or the transfer of assets or liabilities of the Guarantor to an asset management company. Any claims on the occurrence of an Event of Default will consequently be limited by the application of any measures pursuant to the provisions of Law 9/2012. There can be no assurance that the taking of any such action would not adversely affect the rights of holders, the price or value of their investment in the Notes and/or the ability of the Issuer and/or the Guarantor to satisfy its obligations under the Notes or the guarantee in respect of them and the enforcement by a holder of any rights it may otherwise have on the occurrence of any Event of Default may be limited in these circumstances.

*Risks relating to the Spanish withholding tax regime*

Article 44 of Royal Decree 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014 (the "**Simplified Information Procedures**"). 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 literal wording of Article 44.5 of Royal Decree 1065/2007, income derived from securities originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another OECD country (such as Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Paying Agent appointed by the Issuer submits a statement to the Issuer, the form of which is included in the Agency Agreement, with the following information:

- (a) identification of the securities;
- (b) income payment date (or refund if the Notes are issued at a discount or segregated);
- (c) total amount of income (or total amount to be refunded if the Notes are issued at a discount or segregated); and
- (d) total amount of the income corresponding to each clearing system located outside Spain.

These obligations refer to the total amount paid to investors through each foreign clearing house. For these purposes, "income" means interest and the difference, if any, between the aggregate amount payable on the redemption of the Notes and the issue price of the Notes.

In accordance with Article 44 of Royal Decree 1065/2007, the Fiscal Agent should provide the Issuer with the statement on the business day immediately prior to each interest payment date. The statement must reflect the situation at the close of business of that same day. In the event that on such date, the entity(ies) obliged to provide the declaration fail to do so, the Issuer or the Fiscal Agent on its behalf will make a withholding at the current rate of 21 per cent. (20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016, according to the tax reform) on the total amount of the return on the relevant Notes otherwise payable to such entity.

The Issuer considers that, according to Royal Decree 1065/2007, any payments under the Notes will be made by the Issuer free of Spanish withholding tax, provided that the Simplified Information Procedures described above (which do not require identification of the Noteholders) are complied with by the Issuer and the Fiscal Agent. However, the interpretation of Royal Decree 1065/2007 and in particular the absence of a withholding tax obligation for the Issuer in respect of Spanish resident individuals, and to disclose certain tax information to the Spanish Tax Authorities about those Noteholders who are Spanish Individual Income Tax or Corporate Income Tax taxpayers, or non-Spanish residents operating in Spain through a permanent establishment is currently subject to debate. The Spanish Tax Authorities may eventually issue a tax ruling to clarify the interpretation of the currently applicable procedures and it cannot be completely discarded that such ruling determines that the Issuer should apply a withholding on payments to individuals with tax residence in Spain and to obtain and disclose certain information to the tax authorities. If this is the case, identification of Noteholders may be required and the procedures, if any, for the collection of relevant information will

be applied by the Issuer (to the extent required) so that it can comply with its obligations under the applicable legislation as clarified by the Spanish Tax Authorities.

If, following clarification by the Spanish Tax Authorities, procedures for the collection of the Noteholders information are to apply, the Noteholders will be informed of such new procedures and their implications.

Similarly if following clarification by the Spanish Tax Authorities, Noteholders who are Spanish Individual Income Tax Payers become subject to withholding tax, the Issuer will apply the relevant withholding on payments to individuals with tax residence in Spain. The Issuer will not pay any additional amounts in respect of any such withholding tax.

Noteholders must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Notes. None the Issuer, the Dealers, the Fiscal Agent or any clearing system (including Euroclear and Clearstream, Luxembourg) assume any responsibility therefore.

#### General

The procedure described in this Base Prospectus for the provision of information required by Spanish laws and regulations is a summary only and none of the Issuer, the Guarantor or the Dealers, assumes any responsibility therefore. In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will notify the holders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on distributions in respect of the relevant securities if the holders do not comply with such information procedures.

#### *EU Savings Directive.*

If a payment were to be made or collected through a Member State which has opted for a transitional withholding system as referred to below on page 103 under the heading "*EU Savings Directive*" and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent, the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *Payments on the Notes may be subject to U.S. withholding under FATCA.*

The United States has enacted rules, commonly referred to as "FATCA", which generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with Spain (the "**Spain IGA**"). Under the Spain IGA, as currently drafted, the Issuer does not expect payments made on or with respect to the Notes to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Notes in the future. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, subject to completion with the provisions of the relevant Final Terms, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series and, subject further to simplification by deletion of non-applicable provisions, will be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Final Terms. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes, which may be issued under the Programme.*

The Notes of each Tranche will, if so required by Spanish law, be issued by virtue of a public deed of issuance (the "**Public Deed of Issuance**") to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Madrid on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Notes. The Notes are issued pursuant to an amended and restated fiscal agency agreement dated 22 December 2014 (the "**Fiscal Agency Agreement**") between BPE Financiaciones, S.A. as issuer (the "**Issuer**"), Banco Popular Español, S.A. as guarantor (the "**Guarantor**"), The Bank of New York Mellon, London Branch as fiscal agent (the "**Fiscal Agent**"), paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the "**Paying Agents**"), transfer agent (together with any additional or other transfer agents in respect of the Notes from time to time appointed, the "**Transfer Agents**") and The Bank of New York Mellon (Luxembourg) S.A. as registrar and transfer agent (the "**Registrar**"). The Noteholders are entitled to the benefit of the deed of covenant dated 22 December 2014 and executed by the Issuer (the "**Deed of Covenant**"). The Guarantor has, for the benefit of the holders of the Notes from time to time, executed and delivered a deed of guarantee dated 22 December 2014 (the "**Deed of Guarantee**") under which it has guaranteed the due and punctual payment of all sums from time to time payable by the Issuer under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The holders of the Notes (the "**Noteholders**"), the holders of the interest coupons (the "**Coupons**") appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the instalment receipts (the "**Receipts**") appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Fiscal Agency Agreement applicable to them.

Copies of the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents.

Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a Final Terms (the "**Final Terms**") which completes these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

### 1. **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Relevant Business Day;
- (ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Relevant Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Relevant Business Day;



- (iii) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Relevant Business Day;
- (iv) **"FRN Convention", "Floating Rate Convention" or "Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that:**
  - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Relevant Business Day in that calendar month;
  - (B) if any such date would otherwise fall on a day which is not a Relevant Business Day, then such date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Relevant Business Day; and if the preceding such date occurred on the last day in a calendar month which was a Relevant Business Day, then all subsequent such dates will be the last day which is a Relevant Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**"Calculation Agent"** means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

**"Calculation Amount"** has the meaning given in the relevant Final Terms;

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if **"Actual/Actual (ICMA)"** is so specified, means:
  - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (b) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if **"Actual/Actual (ISDA)"** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if **"Actual/365 (Fixed)"** is so specified, means the actual number of days in the Calculation Period divided by 365;

- (iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

- (vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

- (vii) if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"**Euro-zone**" means the member states of the European Union that are participating in the third stage of European Monetary Union;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Fixed Reset Note**" means Notes to which the Fixed Reset Note Provisions are specified in the relevant Final Terms as being applicable;

"**Indebtedness**" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

**"Interest Commencement Date"** means the date of issue of the Notes (the **"Issue Date"**) or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

**"Interest Determination Date"** means, with respect to an Interest Rate and Interest Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Period if the Relevant Currency is sterling (ii) or the day falling two Relevant Business Days in London prior to the first day of such Interest Period if the Relevant Currency is not sterling, or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Period if the Relevant Currency is Euro;

**"Interest Payment Date"** means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

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

**"Interest Period Date"** means each Interest Payment Date unless otherwise specified hereon;

**"Interest Rate"** means the rate of interest payable from time to time in respect of this Note and which is either specified, or calculated in accordance with the provisions, hereon;

**"ISDA Definitions"** means unless otherwise specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc;

**"Issue Date"** has the meaning given in the relevant Final Terms;

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Minimum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Optional Redemption Amount (Call)"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Optional Redemption Amount (Put)"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Optional Redemption Date (Call)"** has the meaning given in the relevant Final Terms;

**"Optional Redemption Date (Put)"** has the meaning given in the relevant Final Terms;

**"Participating Member State"** means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities, as amended;

**"Payment Business Day"** means a day (other than a Saturday or a Sunday) on which banks are open for general business in the relevant place of presentation for payment of debt securities and for dealings in foreign currencies, in such jurisdictions as shall be specified as "**Business Day Jurisdictions**" hereon and:

- (i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, a day on which dealings in foreign currencies may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in Euro) where payment is to be made by transfer to an account, a day on which the TARGET2 System is operating.

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (i) in relation to Euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

**"Reference Banks"** has the meaning given in the relevant Final Terms or, if none, four (or if the principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Rate"** means one of LIBOR or EURIBOR, as specified in the applicable Final Terms;

**"Regular Period"** means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

**"Regulator"** means *Banco de España* or such other governmental authority which assumes or performs the functions of the Bank of Spain, as at the Issue Date of the first tranche of Subordinated Notes, or such other or successor authority exercising primary bank supervisory

authority, in each case with respect to prudential matters in relation to the Guarantor and/or the Group;

**"Relevant Business Day"** means:

- (i) in the case of a specified currency other than Euro and/or one or more specified financial centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency and/or each of the financial centres so specified; and/or
- (ii) in the case of Euro a day on which the TARGET2 System is operating; and/or
- (iii) in the case of a specified currency and for one or more specified financial centres, a day (other than a Saturday or a Sunday) in which commercial banks and foreign exchange markets settle payments in the specified currency or, if none is specified, generally in each of the financial centres so specified;

**"Relevant Currency"** means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**"Relevant Financial Centre"** has the meaning given in the relevant Final Terms;

**"Relevant Screen Page"** means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given in the relevant Final Terms;

**"RRD"** means any relevant laws and regulations applicable to the Guarantor at the relevant time pursuant to, or which implement, or are enacted within the context of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council for the recovery and resolution of credit institutions and investment firms or such other resolution or recovery rules which may from time to time be applicable to the Guarantor;

**"Specified Denomination(s)"** has the meaning given in the relevant Final Terms;

**"Specified Currency"** has the meaning given in the relevant Final Terms;

**"Specified Duration"** means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to a Business Day Convention;

**"Specified Period"** has the meaning given in the relevant Final Terms;

**"Statutory Loss Absorption Regime"** means any statutory regime implemented or directly effective in Spain which provides any administrative agency or governmental authority (including, without limitation, the *Fondo de Reestructuración Ordenada Bancaria* (Fund for the Orderly Restructuring of Banks, the "**FROB**")), or any successor authority with the powers to implement any loss absorption measures in respect of capital instruments (such as the

Subordinated Notes), including, but not limited to, Law 9/2012 of 14 November, on restructuring and resolution of credit entities ("**Law 9/2012**") and any such regime which is implemented pursuant to the RRD or which otherwise contains provisions analogous to those regarding the implementation of loss absorption measures in respect of capital instruments contained in the RRD;

"**Subsidiary**" means, at any particular time, any company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the first person and/or one or more of its subsidiaries. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

"**TARGET Business Day**" means a day on which the TARGET2 System is operating; and

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which utilises a single shared platform and was launched on 19 November 2007.

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

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"), in each case in the Denomination(s) shown thereon.

*All Registered Notes shall have the same Denomination.*

Bearer Notes are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Notes which do not bear interest in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**"), each Certificate representing a holding of one or more Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to the Notes.

All capitalised terms which are not defined in these conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the Definitive Notes.

## 3. **Transfers of Registered Notes**

### (a) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the

transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(b) ***Exercise of Options or Partial Redemption in Respect of Registered Notes***

In the case of an exercise of an option by an Issuer or a holder of Notes in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) ***Delivery of new Certificates***

Each new Certificate to be issued pursuant to Conditions 3(a), (b) or (c) will, within three business days (being a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar to whom such request for exchange or form of transfer shall have been delivered) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom such delivery shall have been made or, at the option of the holder making such delivery as aforesaid and as specified in the relevant request for exchange or form of transfer, be mailed at the risk of the holder entitled to the new Certificate to such address as may be specified in such request for exchange or form of transfer.

(d) ***Exchange free of charge***

Exchange and transfer of Notes on registration, transfer, partial redemption or exercise of an option will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

(e) ***Closed periods***

No holder of a Note may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 7(e) or (iii) after any such Note has been drawn for redemption in whole or in part.

4. **Guarantee and Status**

(a) ***Status of Senior Notes***

If this Condition 4(a) is specified in the Final Terms as being applicable, the Notes shall be "**Senior Notes**". The Senior Notes constitute direct, unconditional, unsubordinated and (without prejudice to the provisions of Condition 5) unsecured obligations of the Issuer. Upon the insolvency of the Issuer, Senior Notes will rank *pari passu* among themselves and equally with all other unsecured and unsubordinated obligations of the Issuer unless they qualify as subordinated claims pursuant to article 92 of Insolvency Law or equivalent legal provisions which replace it in the future, and subject to any applicable legal and statutory exceptions.

In the event of insolvency (*concurso*) of the Issuer, under Law 22/2003 claims relating to Senior Notes (unless they qualify as subordinated credits under Article 92 of Law 22/2003 or equivalent legal provisions which replace it in the future, and subject to any applicable legal and statutory exceptions) will be ordinary credits (*créditos ordinarios*) as defined in Law 22/2003. Ordinary credits rank below credits against the insolvency state (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits and the



rights of shareholders. Pursuant to Article 59 of Law 22/2003, accrual of interest shall be suspended from the date of declaration of insolvency of the Issuer. Accrued and unpaid interests due in respect of the Senior Notes at the commencement of an insolvency proceeding (*concurso*) of the Issuer will qualify as subordinated credits.

(b) **Status of Subordinated Notes**

If this Condition 4(b) is specified in the Final Terms as being applicable, the Notes shall be "**Subordinated Notes**". The Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Issuer.

Upon the insolvency of the Issuer, the Subordinated Notes will (unless they qualify as subordinated claims pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provisions which replace them in the future, and subject to any applicable legal and statutory exceptions) rank: junior to the claims of all Senior Creditors of the Issuer and the Guarantor; without preference or priority among themselves and equally with all other contractually subordinated obligations of the Issuer or the Guarantor, respectively, other than those subordinated obligations which qualify as subordinated claims pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provisions which replace them in the future, other subordinated obligations prescribed by law, and subordinated obligations which are expressed to rank junior to the Subordinated Notes; and senior to (i) the claims of holders of all share capital of the Issuer and the Guarantor and (ii) the claims of holders of all obligations of the Issuer and the Guarantor which constitute Tier 1 Capital of the Issuer and the Guarantor.

"**Senior Creditor**" means creditors of the Issuer whose claims are in respect of obligations which are unsubordinated (including, for the avoidance of doubt, holders of Senior Notes) or which otherwise rank, or are expressed to rank, senior to obligations which constitute Tier 1 Capital or Tier 2 Capital of the Issuer (including any holders of Subordinated Notes).

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings given to such terms in the Applicable Banking Regulations from time to time.

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Issuer and the Guarantor including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies of the Regulator relating to capital adequacy 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 Issuer and the Guarantor).

*Pursuant to article 92 of the Insolvency Law after payment in full of unsubordinated claims but before distributions to shareholders, the Issuer will meet subordinated payment claims in the order detailed below and pro rata within each class:*

- (a) *claims that, having been lodged late, are included in the list of creditors by the insolvency administrators or that, not having been duly lodged or which have been lodged late are included on that list by subsequent communications or by the Court on resolving on an appeal on the list of creditors. The following claims shall not be subordinated for this cause and shall be classified according to their respective nature: (i) those credits arising from article 86.3 of the Insolvency Law, (ii) those credits whose existence arises from the documentation of the Issuer, (iii) those arising from an executive title, (iv) those guaranteed by an in rem guarantee registered with a public registry, (v) those that are in any way recorded in the insolvency proceedings or in any other judicial proceedings, or (vi) those that require inspection action by the Public Administrations to be determined;*
- (b) *claims that, under a contractual arrangement, are subordinated in nature with regard to all the other claims against the Issuer;*
- (c) *interest and overcharge claims of any kind, including those for late payment, except for those claims with a security in rem, up to the sum of the respective guarantee;*
- (d) *claims for fines and other monetary penalties; and*

- (e) *claims held by any of the persons especially related to the Issuer that are referred to in article 93 of the Insolvency Law, except for those arising from non-financing agreements entered into by the Issuer and those of its shareholders referred to under articles 93.2.1º and 93.2.3º of the Insolvency Law and which have the percentage of holding established therein.*

*Creditors that have capitalised directly or indirectly all or part of their credits pursuant to a refinancing agreement adopted in accordance with article 71 bis or the fourth additional disposition of the Insolvency Law, will not be regarded as persons especially related (personas especialmente relacionadas) to the Issuer, for the purpose of qualifying the credits held against the debtor as a result of the refinancing granted by virtue of such agreement;*

- (f) *claims in favour of whom the ruling has declared a party in bad faith in the act contested as a consequence of the insolvency revocation; and*
- (g) *claims arising from the contracts with reciprocal obligations referred to in articles 61, 62, 68 and 69 of the Insolvency Law, when the Court finds, following the report by the insolvency administrators, that the creditor has repeatedly hindered fulfilment of the contract to the detriment of the insolvency interests.*

*As indicated above, interest on the Subordinated Notes accrued but unpaid as of the commencement of any insolvency procedure of an Issuer shall constitute subordinated claims of the Issuer ranking in accordance with the provisions or article 92 of the Insolvency Law. Under Spanish Law, accrual of interest on the Subordinated Notes shall be suspended from the date of the declaration of insolvency of the Issuer.*

The Subordinated Notes are also subject to any Statutory Loss Absorption Regime applicable to subordinated capital instruments of the Issuer.

(c) ***Senior Guarantee***

This Condition 4(c) is applicable to Senior Notes only. The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Senior Notes on an unsubordinated basis. The obligations of the Guarantor in respect of the Senior Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 5) unsecured obligations of the Guarantor. Upon the insolvency of the Guarantor, the obligations of the Guarantor under the guarantee in respect of Senior Notes will rank *pari passu* among themselves and equally with all other unsecured and unsubordinated obligations of the Guarantor, unless they qualify as subordinated claims pursuant to article 92 of Insolvency Law or equivalent legal provisions which replace it in the future, and subject to any applicable legal and statutory exceptions.

In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to the guarantee of the Senior Notes (unless they qualify by law as subordinated credits under Article 92 of Law 22/2003 or equivalent legal provisions which replace it in the future, and subject to any applicable legal and statutory exceptions) will be ordinary credits (*créditos ordinarios*) as defined in Law 22/2003. Ordinary credits rank below credits against the insolvency state (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits and the rights of shareholders and creditors of the Guarantor which are characterised as holders of equity (*otros acreedores a título asimilable al de aportación de capital*).

(d) ***Subordinated Guarantee***

This Condition 4(d) is applicable to Subordinated Notes only. The obligations of the Guarantor under the guarantee in respect of Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor which, upon the insolvency of the Guarantor (and unless they qualify as subordinated claims pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provision which replace them in the future, and subject to any applicable legal and statutory exceptions) shall rank *pari passu* with all other present and

future subordinated obligations of the Guarantor other than those subordinated obligations pursuant to Articles 92.3 to 92.7 of the Insolvency Law or equivalent legal provision which replace them in the future, other subordinated obligations of the Guarantor prescribed by law and subordinated obligations which are expressed to rank junior to the Guarantor's obligations under the guarantee in respect of Subordinated Notes. In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to the guarantee in respect of Subordinated Notes will fall within the category of "subordinated debts" (as defined in Law 22/2003).

*Pursuant to article 92 of the Insolvency Law after payment in full of unsubordinated claims but before distributions to shareholders, the Guarantor will meet subordinated payment claims in the order detailed below and pro rata within each class:*

- (a) *claims that, having been lodged late, are included in the list of creditors by the insolvency administrators or that, not having been duly lodged or which have been lodged late are included on that list by subsequent communications or by the Court on resolving on an appeal on the list of creditors. The following claims shall not be subordinated for this cause and shall be classified according to their respective nature: (i) those credits arising from article 86.3 of the Insolvency Law, (ii) those credits whose existence arises from the documentation of the Guarantor, (iii) those arising from an executive title, (iv) those guaranteed by an in rem guarantee registered with a public registry, (v) those that are in any way recorded in the insolvency proceedings or in any other judicial proceedings, or (vi) those that require inspection action by the Public Administrations to be determined;*
- (b) *claims that, under a contractual arrangement, are subordinated in nature with regard to all the other claims against the Guarantor;*
- (c) *interest and overcharge claims of any kind, including those for late payment, except for those claims with a security in rem, up to the sum of the respective guarantee;*
- (d) *claims for fines and other monetary penalties; and*
- (e) *claims held by any of the persons especially related to the Guarantor that are referred to in article 93 of the Insolvency Law, except for those arising from non-financing agreements entered into by the Guarantor and those of its shareholders referred to under articles 93.2.1° and 93.2.3° of the Insolvency Law and which have the percentage of holding established therein.*

*Creditors that have capitalised directly or indirectly all or part of their credits pursuant to a refinancing agreement adopted in accordance with article 71 bis or the fourth additional disposition of the Insolvency Law, will not be regarded as persons especially related (personas especialmente relacionadas) to the Guarantor, for the purpose of qualifying the credits held against the debtor as a result of the refinancing granted by virtue of such agreement;*

- (f) *claims in favour of whom the ruling has declared a party in bad faith in the act contested as a consequence of the insolvency revocation; and*
  - (g) *claims arising from the contracts with reciprocal obligations referred to in articles 61, 62, 68 and 69 of the Insolvency Law, when the Court finds, following the report by the insolvency administrators, that the creditor has repeatedly hindered fulfilment of the contract to the detriment of the insolvency interests.*
- (e) ***Noteholder Acknowledgement of Ranking***

By purchasing Senior Notes, Holders of Senior Notes acknowledge that all Senior Notes issued or to be issued by BPE Financiaciones, S.A. shall rank *pari passu* among themselves, and by purchasing Subordinated Notes, Holders of Subordinated Notes acknowledge that all Subordinated Notes issued or to be issued by BPE Financiaciones, S.A. under the Programme shall rank *pari passu* among themselves, in each case regardless of their respective issue date.

5. **Negative Pledge**

(a) So long as any of the Senior Notes, Receipts or Coupons remain outstanding (as defined in the Fiscal Agency Agreement):

- (i) neither the Issuer of the Senior Notes nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or guarantee of the Relevant Indebtedness of the Issuer or the Guarantor;
- (ii) the Guarantor will procure that no Relevant Subsidiary of the Guarantor creates or permits to subsist any Security upon the whole or part of the undertaking, assets or revenues present or future, to secure any Relevant Indebtedness or guarantee of the Guarantor, such Relevant Subsidiary or any other Person,

without, at the same time or prior thereto, securing the Issuer's obligations under the Senior Notes, Receipts and Coupons or as the case may be the Guarantor's obligations under the Senior Notes are secured equally and rateably therewith or providing such other security for the Senior Notes as may be approved by a resolution of the relevant Syndicate of holders of the Senior Notes.

(b) Nothing in this Condition shall prevent either the Issuer or the Guarantor from creating or having outstanding any Security upon the whole of, any part of its undertaking, assets or revenues present or future which:

- (i) arises by operation of law and in the ordinary course of business;
- (ii) is created over assets purchased by the Guarantor or any of its Subsidiaries which (a) is created or arises or, in the case of real estate, exists at the time of the purchase of such assets and (b) secures solely all or part of the unpaid balance of the purchase price of such assets;
- (iii) created pursuant to any securitisation, asset-backed financing of like arrangement, including, but not limited to issues of *cédulas hipotecarias*, *bonos hipotecarios*, *participaciones hipotecarias*, *certificados de transmisión de hipoteca*, *cédulas territoriales*, *cédulas de internacionalización* and *bonos de internacionalización* in accordance with normal practice in Spain and whereby the Relevant Indebtedness (or any guarantee or other obligation in any Relevant Indebtedness) secured by such Security or having the benefit of such secured guarantee or other obligations is limited to the value of such undertaking, assets or revenues.

(c) For the purposes of this Condition:

"**Group**" means the Guarantor and its consolidated subsidiaries;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

"**Relevant Indebtedness**" means any Indebtedness in the form of, or represented by, bonds, notes, debentures or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market (for which purpose any such bonds, notes, debentures or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide), having an original maturity of more than the one year from its date of issue;

"**Relevant Subsidiary**" means, at any time, a Subsidiary of the Guarantor (a) whose net assets represent not less than 10 per cent. of the net consolidated assets of the Group as calculated by reference to the then latest audited accounts (or, as the case may be, consolidated accounts) of such Subsidiary and the then latest audited consolidated accounts of the Group or (b) whose gross revenues represent not less than 10 per cent. of the net consolidated gross revenues of the

Group as calculated by reference to the then latest audited accounts (or, as the case may be, consolidated accounts) of such Subsidiary and the then latest audited consolidated accounts of the Group.

6. **Interest Provisions**

(a) ***Fixed Rate Note Provisions***

- (i) *Application:* This Condition 6(a) (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Payments and Talons*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6(a) (as well after as before judgment) until whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Fiscal Agent or Registrar (as the case may be) has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (iii) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (iv) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.

(b) ***Fixed Reset Note Provisions***

- (i) *Application:* This Condition 6(b) (*Fixed Reset Note Provisions*) is applicable to the Notes only if the Fixed Reset Note Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Accrual of interest:* Each Fixed Reset Note bears interest
  - (A) from (and including) the Interest Commencement Date to (but excluding) the First Reset Date at the rate per annum equal to the Initial Interest Rate;
  - (B) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if none, the Maturity Date (the "**First Reset Period**") at the rate per annum equal to the First Reset Rate; and
  - (C) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a "**Subsequent Reset Period**") at the rate per annum equal to the relevant Subsequent Reset Rate,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) (each a "**Rate of Interest**") payable, in each case, in arrear on the Interest Payment Date(s) in each year up to and including the Maturity Date.

The provisions of this Condition 6(b) shall apply, as applicable, in respect of any determination by the Fiscal Agent of the Rate of Interest for a Reset Period in accordance with this Condition 6(b) as if the Fixed Reset Notes were Floating Rate Notes. The Rate of Interest for each Reset Period shall otherwise be determined by the Fiscal Agent on the relevant Reset Determination Date in accordance with the provisions of this Condition 4.2. Once the Rate of Interest is determined for a Reset Period, the provisions of Condition 6(a) shall apply to Fixed Reset Notes, as applicable, as if the Fixed Reset Notes were Fixed Rate Notes.

In these Conditions:

**"First Reset Rate"** means the sum of the Reset Margin and the Mid-Swap Rate for the First Reset Period;

**"Fixed Reset Rate Relevant Screen Page"** means the display page on the relevant service (including, without limitation, Reuters) as specified in the applicable Final Terms or such other page as may replace it on that information service, or on such other equivalent information service as determined by the Fiscal Agent, for the purpose of displaying the relevant swap rates for swap transactions in the Specified Currency with an equivalent maturity to the Reset Period;

**"Mid-Swap Rate"** means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the rate for the Reset Date of, in the case of semi-annual or annual Interest Payment Dates, the semi-annual or annual swap rate, respectively (with such semi-annual swap rate to be converted to a quarterly rate in accordance with market convention, in the case of quarterly Interest Payment Dates) for swap transactions in the Specified Currency maturing on the last day of such Reset Period, expressed as a percentage, which appears on the Fixed Reset Rate Relevant Screen Page as of approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date. If such rate does not appear on the Fixed Reset Rate Relevant Screen Page, the Mid-Swap Rate for the Reset Date will be the Reset Reference Bank Rate for the Reset Period;

**"Reference Banks"** means five leading swap dealers in the interbank market for swap transactions in the Specified Currency with an equivalent maturity to the Reset Period as selected by the Issuer;

**"Representative Amount"** means an amount that is representative for a single transaction in the relevant market at the relevant time;

**"Reset Date"** means the First Reset Date, the Second Reset Date and each Subsequent Reset Date, as applicable;

**"Reset Determination Date"** means the second Business Day immediately preceding the relevant Reset Date;

**"Reset Period"** means the First Reset Period or any Subsequent Reset Period, as the case may be;

**"Reset Period Mid-Swap Rate Quotations"** means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on the day count basis customary for fixed rate payments in the Specified Currency), of a fixed-for-floating interest rate swap transaction in the Specified Currency with a term equal to the Reset Period commencing on the Reset Date and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg (in each case calculated on the day count basis customary for floating rate payments in the Specified Currency), is equivalent to the Rate of Interest that would apply in respect of the Notes if (a) Screen Rate Determination was specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, (b) the Reference Rate was the Floating Leg Reference Rate and (c) the Fixed Reset Rate Relevant Screen Page was the Floating Leg Screen Page; and

**"Reset Reference Bank Rate"** means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the Reset Period Mid-Swap Rate quotations provided by the Reference Banks at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date. The Fiscal Agent will request the principal office of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the rate for the Reset Date will be 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 Mid-Swap Rate will be the Mid-Swap Rate for the immediately preceding Reset Period or, if none, the Initial Mid-Swap Rate.

- (iii) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount:* The Fiscal Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Fixed Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day (where a "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London) thereafter.
- (iv) *Certificates to be final:* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b) by the Fiscal Agent shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Floating Rate Note Provisions***

- (i) *Application:* This Condition 6(c) (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Payments and Talons*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Fiscal Agent or Registrar (as the case may be) has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (iii) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
  - (A) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears

on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

- (B) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (C) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (1) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (2) determine the arithmetic mean of such quotations; and
- (D) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (iv) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (B) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
  - (C) the relevant Reset Date (as defined in the ISDA Definitions) is either (X) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (Y) in any other case, as specified in the relevant Final Terms.
- (v) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.



- (vi) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.
- (vii) *Calculation of other amounts:* If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
- (viii) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- (ix) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 7. **Redemption, Purchase and Options**

### (a) ***Final Redemption***

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Redemption Amount (which, unless otherwise provided, is its principal amount) on the Maturity Date.

Subordinated Notes will have a maturity of not less than five years from their date of issuance or such other minimum or maximum maturity as may be permitted or required from time to time by any laws or regulations applicable to the Issuer or requirements of any applicable regulatory authority.

### (b) ***Redemption for taxation reasons***

The Notes may be (subject in the case of Subordinated Notes which shall only be redeemed at any time if so permitted by the applicable Spanish capital adequacy requirements then in force, and subject to the previous consent of the Regulator) redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of Notes (which notice shall be irrevocable), at their Early Redemption Amount (Tax), (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Senior Guarantee or the Subordinated Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as

provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Ireland or the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligations cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or either guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent and the Commissioner a certificate signed by a director of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer (or the Guarantor, as the case may be) so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and, in the case of Subordinated Notes, a copy of the Regulator's consent to redemption.

In the case of Subordinated Notes qualifying as regulatory capital (*recursos propios*), redemption for taxation reasons is subject to the prior consent of the Regulator and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) of CRR provides that the Regulator may only permit the redemption of Subordinated Notes before the fifth anniversary of the Issue Date for taxation reasons if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of CRR (as described below), there is a change in the applicable tax treatment of the instruments and the institution demonstrates to the satisfaction of the Regulator that such change is material and was not reasonably foreseeable at the Issue Date.*

(c) ***Purchases***

The Issuer, the Guarantor and any of the Guarantor's Subsidiaries may at any time purchase Senior Notes and/or Subordinated Notes (**provided that** all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchases of Subordinated Notes will be made in compliance with the applicable Spanish capital adequacy regulations in force at the time of such a purchase and subject to the prior consent of the Regulator, if required.

In the case of Subordinated Notes which qualify as regulatory capital (*recursos propios*), the purchase of the Notes by the Issuer or any of its subsidiaries shall take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Under the current Applicable Banking Regulations an institution requires the prior permission of the Regulator (Article 77(b) and 78 of CRR) to effect the repurchase of Tier 2 instruments, and these may not be repurchased before five years after the date of issuance (Article 63(j) of CRR).*

(d) ***Redemption at the Option of the Issuer and Exercise of Issuer's Options***

- (i) If Issuer Call is specified in the applicable Final Terms, subject to paragraph (v) below, the Issuer may on giving irrevocable notice to the holders of Notes of not less than 30 days nor more than 60 days, redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Optional Redemption Amount (Call) together with interest accrued to the date fixed for redemption.
- (ii) All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

- (iii) In the case of a partial redemption or a partial exercise of an Issuer's option the notice to holders of Notes shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.
- (iv) Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.
- (v) In the case of Subordinated Notes redemption at the option of the Issuer is subject to the prior consent of the Regulator and compliance with the applicable Spanish capital adequacy regulations then in force. Redemption of Subordinated Notes may not take place within a period of five years from their date of issue or such other minimum or maximum length as may be permitted or required from time to time by any laws or regulations applicable to the Issuer or requirements of any applicable regulatory authority.

In the case of Subordinated Notes qualifying as regulatory capital (*recursos propios*), redemption at the option of the Issuer is subject to the prior consent of the Regulator and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(1) of CRR provides that the Regulator will give its consent to redemption of Subordinated Instruments in such circumstances provided that either of the following conditions is met:*

*(a) on or before such redemption of the Subordinated Instruments, the institution replaces the Subordinated Instruments with own funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the institution; or*

*(b) the institution has demonstrated to the satisfaction of the Regulator that its own funds would, following such redemption, exceed the requirements laid down in Article 92(1) of CRR and the combined buffer requirement as defined in point (6) of Article 128 of CRD IV Directive by a margin that the Regulator may consider necessary on the basis of Article 104(3) of CRD IV Directive.*

(e) ***Redemption at the option of the Issuer (Capital Event)***

If a Capital Event occurs as a result of a change in Spanish law, applicable Spanish banking or capital adequacy regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date (including as a result of the implementation or applicability in Spain on or after the Issue Date of the CRD IV), the Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, subject to such redemption being permitted by the applicable Spanish law then in force and subject to the prior consent of the Regulator, if required, at any time, on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15 (*Notices*), the holders (which notice shall be irrevocable and shall specify the date fixed for redemption).

Redemption for regulatory reasons is subject to the prior consent of the Regulator and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

*Article 78(4) of CRR provides that the Regulator may only permit the redemption of Subordinated Instruments before the fifth anniversary of the Issue Date for regulatory reasons if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of CRR (as described above), there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the institution demonstrates to the satisfaction of the Regulator that the regulatory classification was not reasonably foreseeable at the Issue Date.*

In these Conditions,

"**Capital Event**" means the redemption in whole by the Issuer after permission of the Regulator , before five years since the Issue Date of Subordinated Notes have passed, only where the conditions laid down in Article 78(1) of CRR and the following conditions are met: (a) there is a change in the regulatory classification of those Subordinated Notes that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds; and (b) the competent authority considers such a change to be sufficiently certain and the institution demonstrates to the satisfaction of the competent authorities that the regulatory reclassification of those Subordinated Notes was not reasonably foreseeable at the time of their issuance;

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

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013;

"**CRD IV Implementing Measures**" means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Issuer (on a stand alone basis) or the Group (on a consolidated basis) and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital of the Issuer (on a stand alone or consolidated basis); and

"**CRR**" means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

References in the Conditions to applicable Spanish capital adequacy requirements or regulations and any related or similar such references shall be construed as including any laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Spain including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer or the Group).

Subordinated Notes redeemed pursuant to this Condition 7(e) will be redeemed at their Optional Redemption Amount (Put) referred to in Condition 7(f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(f) ***Redemption at the Option of Noteholders and holders' Exercise of Noteholders Options***

- (i) If Investor Put is specified in the applicable Final Terms, subject to paragraph (ii) below, the Issuer shall, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Optional Redemption Amount (Put) together with interest accrued to the date fixed for redemption. No such redemption option will be applicable to any Subordinated Notes, unless as permitted under applicable Spanish capital adequacy regulations.
- (ii) To exercise such option or any other option of a holder of Notes which may be set out hereon the holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Option Period of a holder of Notes (as specified in the relevant Final Terms). Such Exercise Notice must be deposited in accordance with the Notice period specified in the relevant Final Terms. Such Notice period shall not be less than 15 business days. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement) without the prior consent of the Issuer.

(g) ***Redemption by Instalments***

Unless previously redeemed, purchased and cancelled as provided in this Condition 7, each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Note shall be reduced by the Instalment Amount for all purposes.

(h) ***Cancellation***

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's subsidiaries must (if required by applicable law or the Regulator) or may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

8. **Payments and Talons**

(a) ***Bearer Notes***

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and **provided that** the Receipts are presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8 (f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency; and in the case of Euro, by cheque drawn on, or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) ***Registered Notes***

(i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned or, if the currency is Euro, in such financial centre or centres in the Euro-zone as designated by the Registrar and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency designated by the holder with a bank in the principal financial centre of the country of that currency or, if the currency is Euro, in such financial centre in the Euro-zone notified to the Registrar by such holder.

(c) ***Payments in the United States***

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments Subject to Law, etc.***

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 9. No commission or expenses shall be charged to the holders of Notes or Couponholders in respect of such payments.

(e) ***Appointment of Agents***

The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents **provided that** the Issuer will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities, (vi) a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to confirm to, such Directive and (vii) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, such other agents as are required by such listing authority, stock exchange and/or quotation system.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office will promptly be given to the holders of Notes in accordance with Condition 15.

(f) ***Unmatured Coupons and Receipts and unexchanged Talons***

(i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unmaturing Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).

(ii) If the relevant Notes so provide, upon the due date for redemption of any Bearer Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note
- (iv) (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (v) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date failing on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (vi) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provisions of such indemnity as the Issuer may require.
- (vii) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 10).

(h) ***Non-Business Days***

If any date for payment in respect of any Note, Receipt or Coupon is not a Payment Business Day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment.

9. **Taxation**

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons by the Issuer or (as the case may be) the Guarantor under the Deed of Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any authority therein or thereof having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the holders and the Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes, Receipts or (as the case may be) Coupons, in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any Note, Receipt or Coupon or (as the case may be) under the Deed of Guarantee:

- (i) to, or to a third party on behalf of, a holder in respect of whom the Issuer, the Guarantor (or the Fiscal Agent on its behalf) has not received such information (which may include a tax residence certificate) concerning such holder's identity and tax residence (or the identity or tax residence of the beneficial owner for whose benefit it holds such Notes) as it may be required in order to comply with Spanish tax reporting requirements; or

- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on the thirtieth such day;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union;
- (v) to, or to a third party on behalf of, individuals resident for tax purposes in Spain if the Spanish tax authorities determine payments made to such individuals are not exempt from withholding tax and require a withholding to be made; or
- (vi) to, or to a third party on behalf of, a Spanish-resident corporate entity if the Spanish tax authorities determine that the Notes do not comply with exemption requirements including those specified in the Reply to Consultation of the General Directorate for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

Notwithstanding anything to the contrary in this Condition, none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement between the Issuer, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

*As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 15 that, upon further presentation of the Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Redemption Amounts and all other amounts in the nature of principal payable pursuant to Condition 7, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts which may be payable under this Condition. See "Taxation — Disclosure of Noteholder Information in connection with Interest Payments" for a fuller description of certain tax considerations (particularly in relation to Noteholders which are resident in Spain) relating to the Notes.*

#### 10. **Prescription**

Claims against the Issuer and the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.



11. **Events of Default**

(a) **Events of Default relating to Senior Notes**

This Condition 11(a) only applies to Senior Notes and references to "Notes" shall be construed accordingly.

If any of the following events (each an "**Event of Default**") occurs and is continuing, the Commissioner, acting upon a resolution of the Syndicate of holders of the Notes or any holder of a Note of any Series (provided such holders does not contravene any resolution of the Syndicate) may give written notice to the Issuer and the Guarantor that the Notes of such Series or of such Holder, as the case may be, are immediately repayable, whereupon the Redemption Amount of such Notes together with accrued interest to the date of payment shall (when permitted by applicable Spanish law) become immediately due and payable:

- (i) **Non-Payment:** default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (ii) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Fiscal Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (iii) **Cross-Default:** (i) any Indebtedness of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or, as the case may be, the Guarantor, or (ii) any Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor or any of the Guarantor's Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness provided that the aggregate amount of the Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (a) have occurred equals or exceeds Euro 30,000,000 or its equivalent in other currencies; or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or
- (v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (vi) **Insolvency etc.:** (a) the Issuer or the Guarantor or any of the Guarantor's Subsidiaries becomes insolvent or is unable to pay its debts as they fall due or (b) an administrator, liquidator or a similar officer under applicable (insolvency) law of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries is appointed (or application for any such appointment is made); or
- (vii) **Readjustment:** the Issuer or the Guarantor or any of the Guarantor's Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee given by it; or

- (viii) **Cessation of Business:** the Issuer or the Guarantor or any of the Guarantor's Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or
- (ix) **Application of Priorities:** any other proceeding is commenced which requires the application of priorities provided by applicable Spanish law; or
- (x) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries, or the Issuer or the Guarantor or any of the Guarantor's Subsidiaries shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Syndicate of Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another of the Guarantor's Subsidiaries; or
- (xi) **Ownership:** the Issuer ceases to be wholly-owned and controlled by the Guarantor; or
- (xii) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done and such failure remains unremedied 15 days after written notice to the Issuer and the Guarantor; or
- (xiii) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or
- (xiv) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, *concurso* as defined in Law 22/2003; or
- (xv) **Guarantee:** the guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (xvi) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Subsidiaries.

(b) **Events of Default relating to Subordinated Notes**

This Condition 11(b) only applies to Subordinated Notes and references to "Notes" shall be construed accordingly.

If an order is made by any competent court commencing insolvency proceedings against the Issuer or the Guarantor or if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor (an "**Event of Default**") then, (i) the relevant Commissioner, acting upon a resolution of the relevant Syndicate of Noteholders, in respect of all Notes of the relevant Series, or (ii) unless there has been a resolution to the contrary by the relevant Syndicate of Noteholders (which resolution shall be binding on all Noteholders), any Noteholder in respect of the Notes held by such Noteholder, may be declared immediately due and payable whereupon the relevant Notes shall, when permitted by applicable Spanish law, become immediately due and payable at their principal amount, together with accrued interest, without further formality.

If an Event of Default occurs under this Condition 11(b), claims of Noteholders in respect of the Notes shall rank as set out under Condition 4(b) (*Status of Subordinated Notes*).

## 12. **Syndicate of Noteholders and Modification of Fiscal Agency Agreement**

### (a) ***Syndicate of Noteholders***

The holders of the Notes of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Noteholders (the "**Regulations**"). The Regulations shall contain the rules governing the functioning of each Syndicate of Noteholders and its relationship with the Issuer and shall be attached to the relevant Public Deed of Issuance. A set of pro forma Regulations is contained in the Fiscal Agency Agreement.

A temporary Commissioner will be appointed for each Syndicate of Noteholders. Upon the subscription of the Notes, the temporary Commissioner will call a general meeting of the Syndicate of Noteholders with the following agenda: (i) to ratify or reject the acts of the temporary Commissioner performed prior to the general meeting of the Syndicate of Noteholders; (ii) to confirm the appointment of the temporary Commissioner or appoint a substitute Commissioner; (iii) to ratify the Regulations; and (iv) to approve the minutes.

Every Noteholder of each Series will be deemed to have agreed to the appointment of the temporary Commissioner and to membership in the Syndicate of Noteholders in respect of such Series of Notes and to have granted full power and authority to the Guarantor with respect to such Series of Notes to take any action and/or to execute and deliver any document or notices for the purposes of attending on behalf of the Noteholders at the first meeting of the Syndicate of Noteholders of such Series and vote in favour of the following resolutions: (i) to ratify the acts of the temporary Commissioner performed prior to the general meeting of the Syndicate of Noteholders; (ii) to confirm the appointment of the temporary Commissioner; (iii) to ratify the Regulations; and (iv) to approve the minutes.

### (a) ***Modification of Fiscal Agency Agreement***

The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the holders of Notes.

Provisions for meetings of the Syndicate of Noteholders will be contained in the Regulations and the Fiscal Agency Agreement (which shall have effect as if incorporated herein).

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the holders of the Notes of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Notes to correct a manifest error. Subject as aforesaid, no other modification may be made to, or waiver of any breach or proposed breach of, these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Noteholders.

For the purposes of these Terms and Conditions,

- (i) "**Commissioner**" means the Commissioner (*comisario*) as this term is defined under the Consolidated Text of Law on Limited Liability Companies 1/2010 dated 2 July (*Texto Refundido de la Ley de Sociedades de Capital*) (the "**Spanish Companies Law**"), of each Syndicate of Noteholders; and
- (ii) "**Syndicate**" means the syndicate (*sindicato*) as this term is described under the Spanish Companies Law.

## 13. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and listing authority, stock exchange and/or quotation system requirements, at the specified office of the Fiscal Agent (in the case of the

Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to holders in accordance with Condition 15, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. **Further Issues**

The Issuer may from time to time without the consent of the holders of Notes or Couponholders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

15. **Notices**

Notices to the holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes listed on the Irish Stock Exchange, any notices to holders must also be published in a daily newspaper of general circulation in Dublin (which is expected to be the *Financial Times*) and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

Notices to the holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and in the case of any Notes which are listed on the Irish Stock Exchange, (so long as such Notes are listed on the Irish Stock Exchange and the rules of that exchange so require), in a leading newspaper having general circulation in Dublin (which is expected to be the *Financial Times*). If any such publication is not practicable, notice will be validly given if published in another leading daily English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition.

Copies of any notice given to any Noteholders will be also given to the Commissioner of the Syndicate of Noteholders of the relevant Series.

16. **Substitution of the Issuer**

(a) The Issuer and the Guarantor may at any time, without the consent of the holders or the Couponholders (but, in the case of Subordinated Notes, subject to the prior consent of the Regulator), substitute for such Issuer any company (the "**Substitute**") upon notice to the holders by such Issuer, the Guarantor and the Substitute to be given in accordance with Condition 15, provided that:

- (i) no payment in respect of the Notes, the Receipts or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;
- (ii) the Substitute shall, by means of a deed poll in the form scheduled to the Fiscal Agency Agreement as Schedule 3 (the "**Deed Poll**"), agree to indemnify each holder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and which would not have

been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

- (iii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;
  - (iv) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;
  - (v) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
  - (vi) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (ii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 16 and the other matters specified in the Deed Poll and that the Notes, Receipts, Coupons and Talons are legal, valid and binding obligations of the Substitute;
  - (vii) each listing authority, stock exchange and/or quotation system by which the Notes are admitted to listing, trading and/or quotation shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system;
  - (viii) Standard & Poor's and/or Moody's as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected; and
  - (ix) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Notes.
- (b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Fiscal Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Fiscal Agency Agreement.
- (c) After a substitution pursuant to Condition 16(a), the Substitute may, without the consent of any holder, effect a further substitution. All the provisions specified in Condition 16(a) and 16(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.
- (d) After a substitution pursuant to Condition 16(a) or 16(c) any Substitute may, without the consent of any holder, reverse the substitution, *mutatis mutandis*.
- (e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

17. **Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any holder of Notes or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of

payment under the relevant Note, Coupon or Receipt which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer, failing whom the Guarantor, shall indemnify it against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the holder of Notes or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder of Notes or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt of any other judgment or order.

18. **Redenomination, Renominalisation and Reconventioning**

- (a) **Application:** This Condition 18 (Redenomination, Renominalisation and Reconventioning) is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.
- (b) **Notice of redenomination:** If the country of the Relevant Currency becomes or, announces its intention to become a Participating Member State the Issuer may, without the consent of the Noteholders and the Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.
- (c) **Redenomination:** Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
- (i) the Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Relevant Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Union regulations); **provided however, that**, if the Issuer determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
- (ii) if Notes have been issued in definitive form:
- (A) all unmatured Coupons denominated in the Relevant Currency (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (**provided that** such Notes and Coupons are available) and no payments will be made in respect thereof;
- (B) the payment obligations contained in all Notes denominated in the Relevant Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder
- (C) (including the obligation to exchange such Notes in accordance with this Condition 18) shall remain in full force and effect; and

- (D) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Relevant Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Relevant Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.
- (d) **Interest:** Following redenomination of the Notes pursuant to this Condition 18, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.
- (e) **Interest Determination Date:** If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET2 Settlement Day before the first day of the relevant Interest Period.

## 19. **Governing Law and Jurisdiction**

### (a) **Governing law**

The issue of the Notes, including their legal nature (*obligaciones*) and status, the capacity of the Issuer, the relevant corporate resolutions, the appointment of the Commissioner and the constitution of the Syndicate of Noteholders (including a dispute relating to any non-contractual obligations arising out of or in connection with them) are and shall be governed by Spanish law. Save as mentioned above, the Notes, Receipts, Coupons and Talons and all matters arising from or connected with the Notes, Receipts, Coupons and Talons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law except for the status of the payment obligations under the Deed of Guarantee, including any non-contractual obligations arising out of or in connection with it, which are governed by, and shall be construed in accordance with, Spanish law.

### (b) **English courts**

The courts of England have exclusive jurisdiction to settle any dispute arising from or connected with the Notes, Receipts, Coupons and/or Talons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**").

### (c) **Appropriate forum**

Each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

### (d) **Rights of the holders of the Notes to take proceedings outside England**

Condition 19(b) (English courts) is for the benefit of the holders of the Notes, Receipts, Coupons and/or Talons only. As a result, nothing in this Condition 19 (Governing law and jurisdiction) prevents any holder of a Note, Receipt, Coupon or Talon from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, holders of Notes, Coupons, Receipts and/or Talons may take concurrent Proceedings in any number of jurisdictions.

(e) ***Process agent***

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Ltd., Fifth Floor 100 Wood Street, London, EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer or Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuers or the Guarantor, as the case may be, the Issuer and the Guarantor (acting together) shall, on the written demand of any holder of Notes addressed and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any holder of Notes shall be entitled to appoint such a person by written notice addressed to the Issuer and Guarantor and delivered to the Issuer and Guarantor or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any holder of Notes to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

20. **Rights of Third Parties**

No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.



## PRO FORMA FINAL TERMS

*The Final Terms in respect of each Tranche of Notes will be completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

Final Terms dated [ ]

**BPE Financiaciones, S.A.**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
Guaranteed by  
BANCO POPULAR ESPAÑOL, S.A.  
under the  
€5,000,000,000 Euro Medium Term Note Programme**

### PART A— CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 22 December 2014 [and the supplemental Prospectus dated *[insert date]* which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, including the 2010 PD Amending Directive (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] on www.ise.ie and copies may be obtained from [address].]<sup>1</sup>

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the [date] Conditions (the "**Conditions**") incorporated by reference in the Base Prospectus dated 22 December 2014. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus dated 22 December 2014 [and the supplemental Base Prospectus dated *[insert date]* which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, including the 2010 PD Amending Directive (the "**Prospectus Directive**"), save in respect of the Conditions which are set forth in the base prospectus dated 22 December 2014 and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 22 December 2014 [and the supplemental Prospectus dated *[insert date]*. [The Base Prospectus [and the supplemental Prospectus] are available for viewing at [address] [and] on www.ise.ie and copies may be obtained from [address].]<sup>2</sup>

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing [any] final terms, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

- |    |      |            |                             |
|----|------|------------|-----------------------------|
| 1. | (i)  | Issuer:    | BPE Financiaciones, S.A.    |
|    | (ii) | Guarantor: | Banco Popular Español, S.A. |

<sup>1</sup> In the case of Notes to be listed on a non-regulated market, references to the Prospectus Directive to be removed.

<sup>2</sup> In the case of Notes to be listed on a non-regulated market, references to the Prospectus Directive to be removed.

2. [(i)] Series Number: [ ]  
 [[(ii)] Tranche Number: [ ]  
 [[(iii)] Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with Tranche [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about [ ]]
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount of Notes:  
 [(i)] Series: [ ]  
 [[(ii)] Tranche: [ ]
5. **Issue Price:** [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
6. (i) Specified Denominations: [ ]  
*No Notes may be issued which have a minimum denomination of less than €100,000 (or equivalent in another currency)*  
 (ii) Calculation Amount: [ ]
7. [(i)] Issue Date: [ ]  
 [(ii)] Interest Commencement Date: [Issue Date]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis: [[ ] per cent. Fixed Rate]]  
 [Fixed Reset Notes]  
 [ ] month [[LIBOR]/[EURIBOR]]+/- [ ] pbs Floating Rate]  
 (Further particulars specified below)
10. Redemption/Payment basis: [Redemption at par]  
 [Instalment]
11. Change of Interest or Redemption/Payment Basis: [Applicable/Not Applicable] [specify the date when any change to the Interest Basis or Redemption/Payment Basis occurs to refer to paragraphs 15, 16 and 17 below]
12. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)] [Not Applicable]
13. [(i)] Status of the Notes: [Senior/Subordinated]. Condition [4(a)/4(b)] applies.  
 [(ii)] Status of the Guarantee: [Senior/Subordinated].  
 [(iii)] [Date Board] approval for issuance of Notes [and Guarantee] obtained: [ ] and [ ] respectively]]  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of the Notes or related Guarantee)]*
14. Method of distribution: [Syndicated/Non-syndicated]

## PROVISIONS RELATING TO INTEREST PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - (ii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Day Jurisdictions for Condition 8(h)]]/[not adjusted]
  - (iii) Fixed Coupon Amount[(s)]: [ ] [per Note of [ ] Specified Denomination and per Note of [ ] Specified Denomination]
  - (iv) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)/ISDA]
  - (v) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]
16. **Fixed Reset Provisions** [Applicable/Not Applicable]  
*(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Initial Interest Rate: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear on each Interest Payment Date]
  - (ii) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]
  - (iii) Fixed Coupon Amount to (but excluding) the First Reset Date: [[ ] per Calculation Amount/Not Applicable]
  - (iv) Broken Amount(s): [[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
  - (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA)]
  - (vi) Determination Date(s): [[ ] in each year][Not Applicable]
  - (vii) First Reset Date: [ ]
  - (viii) Second Reset Date: [ ]/[Not Applicable]
  - (ix) Subsequent Reset Date(s): [ ] [and [ ]][Not Applicable]
  - (x) Reset Margin: [+/-][ ] per cent. per annum
  - (xi) Mid-Swap Rate: [ ]
  - (xii) Fixed Reset Rate Relevant Screen Page: [ ]
  - (xiii) Floating Leg Reference Rate: [ ]
  - (xiv) Floating Leg Screen Page: [ ]
  - (xv) Initial Mid-Swap Rate: [ ] per cent. per annum (quoted on a[n] annual/semi-annual basis)
17. **Floating Rate Note Provisions** [Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [ ]
  - (ii) Specified Interest Payment Dates: [ ]
  - (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/No adjustment]
  - (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
  - (v) Calculation Agent: [ ]
  - (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation

- Agent):
- (vii) Screen Rate Determination:
- Reference Rate: [ ] month [LIBOR]/[EURIBOR]
  - Reference Banks: [ ]
  - Relevant Time: [For example, 11.00 a.m. London time/Brussels time]
  - Relevant Screen Page: [For example, Reuters LIBOR 01/EURIBOR 01]
  - Interest Determination Date(s): [ ]
  - Relevant Financial Centre: [ ]
- (viii) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (ix) Margin(s): [+/-] [ ] per cent., per annum
- (x) Minimum Rate of Interest: [ ] per cent. per annum
- (xi) Maximum Rate of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction: [ ]

## PROVISIONS RELATING TO REDEMPTION

18. **Call Option** [Applicable/Not Applicable]  
(if not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note: [ ] per Note of [ ] specified denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Maximum Redemption Amount: [ ]
- (iv) Notice period [ ]
19. **Put Option** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s): [ ]
- (iii) Notice period:
20. **Final Redemption Amount:** [ ] per Note of specified denomination
21. **Early Redemption Amount**  
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default: [Not Applicable (if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. **Form of Notes:** Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]  
[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice.]  
[Permanent Global Note exchangeable for

- Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.] [Registered Notes]
23. Business Day Jurisdictions for Condition 8(h): [Not Applicable/[ ]. *Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(ii) and 17(i) relate*]
24. New Global Note Form: [Applicable/Not Applicable]
25. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No.] [ ]
26. Details relating to Instalment Notes: [Applicable/Not Applicable]
- (i) Instalment Amount(s): [ ]
- (ii) Instalment Date(s): [ ]
27. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 18 (*Redenomination, Renominatisation and Reconventioning*)] apply]]
28. Temporary Commissioner: [ ]

#### **DISTRIBUTION**

29. (i) If syndicated, names [and addresses] of Managers [and underwriting commitments]: [Not Applicable/[ ]] [(*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers*)]
- (ii) Stabilising Manager (if any): [Not Applicable/[ ]]
- [(iii) Date of[Subscription] Agreement:] [ ]
30. If non-syndicated, name and address of Dealer: [Not Applicable/[ ]]
31. [Total commission and concession:] [[ ] per cent. of the Aggregate Nominal Amount]
32. U.S. Selling Restrictions: [Reg. S Compliance Category[1/2]; TEFRA C/TEFRA D/TEFRA not applicable]

#### **[LISTING AND ADMISSION TO TRADING APPLICATION]**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €5,000,000,000 Euro Medium Term Note Programme of BPE Financiaciones, S.A.

#### **RESPONSIBILITY**

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [ ] has been extracted from [ ]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: .....  
Duly authorised

By: .....  
Duly authorised

## PART B— OTHER INFORMATION

### 1. LISTING

- (i) Listing: [Ireland/London/Luxembourg/[ ]]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ]]
- [(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)]

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S&P: [ ]]

[Moody's: [ ]]

[Fitch: [ ]]

[DBRS: [ ]]

[[Other]: [ ]]

**[Option 1: Credit Rating Agency ("CRA") is (i) established in the EU and (ii) registered under the CRA Regulation:** [Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "CRA Regulation").]

**[Option 2: Credit Rating Agency ("CRA") is not established in the EU nor registered under the CRA Regulation:** [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not registered under Regulation (EC) No 1060/2009, as amended (the "CRA Regulation").]

**[Option 3: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulations:** [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the Instruments is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").]

**[Option 4: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified in accordance with the CRA Regulation:** [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "CRA Regulation").]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

(The above disclosure should reflect the rating allocated to the issue of Notes.)

### 3. [NOTIFICATION]

The [include name of competent authority in EEA home Member State] [has been requested to provide/has provided—include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Plan of Distribution"] and "General Information", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

5. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the offer [ ]  
*(See ["Use of Proceeds"] wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

[(ii) Estimated net proceeds: [ ]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]*

[(iii) Estimated total expenses: [ ] *[Include breakdown of expenses.]*

6. **[Fixed Rate Notes only —YIELD**

Indication of yield: [ ]  
  
[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. **[Floating Rate Notes Only — HISTORIC INTEREST RATES**

Details of historic [LIBOR]/[EURIBOR] rates can be obtained from [Reuters].]

8. **OPERATIONAL INFORMATION**

ISIN Code: [ ]

Common Code: [ ]

CUSIP Code: [ ]

New Global Note intended to be held in a manner which would allow Eurosystem eligibility: [Not Applicable/Yes/No]

[Note that the designation "Yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at



any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] *[Include this text if "Yes" selected in which case the Notes must be issued in NGN form]/*

*[Whilst the designation is specified as "No" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [Include this text if "No" selected in which case the Notes must be issued in CGN form]]*

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [     ]

Calculation Agent: [     ]

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### Initial Issue of Notes

Each tranche of Bearer Notes having an original maturity of more than one year shall be represented initially by a Temporary Global Note in bearer form, without Coupons (a "**Temporary Global Note**"), which shall be deposited with (a) in the case of a global note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, with or on behalf of a Common Depositary located outside the United States for Euroclear and Clearstream, Luxembourg; or (b) in the case of a global note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Notes issued in registered form will be represented by Note certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series.

### Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or such approved intermediary as the holder of a Note represented by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or such approved intermediary (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note in respect of each amount so paid.

### Amendment to Conditions

The Temporary Global Notes and the Permanent Global Notes contain provisions which apply to the Notes which they represent, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

*Exchange:* Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note or, if so provided in a Temporary Global Note, for definitive Bearer Notes (as described in the next paragraph) after the date falling 40 days after the issue date of the Notes upon certification as to non-U.S. beneficial ownership in the form set out in the Fiscal Agency Agreement in the case of Bearer Notes. If specified in the relevant Final Terms, each Permanent Global Note is exchangeable in whole at the request and cost and expense of the Issuer for definitive Bearer Notes by such holder giving notice to the Fiscal Agent, or by the Issuer giving notice to the Fiscal Agent and the Noteholders of its intention to exchange (at the option, cost and expense of the Issuer) such Permanent Global Note for definitive Bearer Notes, in each case on or after the Exchange Date specified in the notice.

On or after any Exchange Date (as defined below) the holder of a Permanent Global Note may surrender such Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bearer Notes (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts which have not already been paid on the Permanent Global Note and a Talon), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Fiscal Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant definitive Bearer Notes.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing system is located.

*Payments:* No payment falling due more than 40 days after the Issue Date will be made on a Temporary Global Note unless exchange for an interest in a Permanent Global Note or for definitive Bearer Notes is

improperly withheld or refused. Payments on any Temporary Global Note during the period up to 40 days after its Issue Date will only be made against presentation of certification as to non U.S. beneficial ownership in the form set out in the Fiscal Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

*Payment Business Day:* In the case of a Global Note, shall be: (i) if the currency of payment is not Euro, where payment is to be made by transfer to an account maintained with a bank in the relevant currency, a day on which dealings in foreign currencies may be carried on in the relevant currency in the principal financial centre of the country of such currency; or (ii) if the currency of payment is Euro, where payment is to be made by transfer to an account, a day on which is a TARGET Business Day and a day on which dealings in foreign currencies may be carried on in each (if any) Relevant Financial Centre (as may be specified in the relevant Final Terms).

*Registered Notes:* Interest on Registered Notes in global form will be paid to the person shown on the Register at close of business on the business day before the due date for payment thereof ("**Record Date**").

*Notices:* Notwithstanding Condition 15 (Notices), while all the Notes are represented by the Temporary Global Note (or by the Temporary Global Note and the Permanent Global Note) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (Notices) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

*Purchase and Cancellation:* Cancellation of any Note surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

*Default:* Following the giving of a notice of an event of default by or through a common depositary for Euroclear and Clearstream, Luxembourg or if the holder of a Global Note so elects or the Global Note will become void as to the specified portion and the persons entitled to such portion as accountholders with a clearing system will acquire direct enforcement rights against the Issuer under the terms of the Deed of Covenant.

*Prescription:* Claims against the Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

*Meetings:* The holder of a permanent Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, as having one vote in respect of each minimum Denomination of Notes for which such Global Note may be exchanged.

In relation to the Permanent Global Note only:

*Exercise of call option:* In connection with an exercise of the option contained in Condition 7(e) (*Redemption at the option of the Issuer and exercise of Issuer's options*) in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (this shall be recorded in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion) or any other clearing system (as the case may be).

*Exercise of put option:* In order to exercise the option contained in Condition 7(f) (*Redemption at the option of Noteholders and Holders exercise of Noteholder's options*) the bearer of the Permanent Global Note must give notice to the Fiscal Agent (via the relevant clearing system) within the time limits relating

to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent for notation.

In the case of any Tranche of Notes having a maturity of more than 365 days, the following legend will appear on all Global Bearer Notes and Definitive Notes that are not in registered form for U.S. tax purposes, and any related Coupons or Talons:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in the above legend provide that a United States taxpayer, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any gain realised on any sale, exchange or redemption of Bearer Notes or any related Coupons.

Notwithstanding any other provision herein, Bearer Notes with maturities of one year or less may be issued.

## **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche of Notes will be used for the general corporate purposes of the Guarantor.

## BPE FINANCIACIONES, S.A.

### Background

BPE Financiaciones, S.A. (the "**Issuer**") was incorporated on 19 February 2004 for an indefinite period of time as a limited liability corporation (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at calle José Ortega y Gasset 29, 28006 Madrid (telephone +34 915 207 278). The Issuer is registered under Volume 19,873, Book 0, Folio 164, Section 8, Sheet M 350196, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*).

The Issuer has no subsidiaries. The authorised share capital of the Issuer is €100,000 divided into 100 common shares, each with a par value of €1,000. As of 30 September 2014, the subscribed and fully paid up share capital is €100,000.

The members of the Board of Directors of the Issuer are Mr. Santiago Armada Martínez de Campos (Chairman), Mr. Daniel de Diego Rozas (Vice-Chairman), Ms. María Raga García (Director), Ms. Sara Zárate Lacalle (Director) and Ms. Aránzazu Ruiz Coto (Director). Mr. Santiago Armada Martínez de Campos works as the Head of the Funding Department of the Bank; Mr. Daniel de Diego Rozas works for the Funding Department, as well as Ms. Sara Zárate Lacalle, Ms. María Raga García works as the Deputy Financial Controller and Ms. Aránzazu Ruiz Coto works as a Financial Officer of the Bank. As at the date of this Base Prospectus, there were no conflicts of interest between any duties owed to the Issuer by the members of its Board of Directors and each of their private, nor any potential conflicts of interest, interests and other duties.

The business address of each of Santiago Armada Martínez de Campos, Mr. Daniel de Diego Rozas, Ms. María Raga García, Ms. Sara Zárate Lacalle and Ms. Aránzazu Ruiz Coto is calle José Ortega y Gasset, 29, 28006 Madrid.

The auditors of the Issuer are PricewaterhouseCoopers Auditores, S.L.

### Activities of the Issuer

The Issuer is a wholly-owned and controlled subsidiary of Banco Popular Español, S.A. The Issuer was incorporated for the purpose of raising funds for the Guarantor and its consolidated subsidiaries on the domestic and international capital markets through the issuance of promissory notes, bonds, notes or other analogous subordinated or unsubordinated securities.

Funds raised by the Issuer are typically deposited with the Guarantor. Income earned by the Issuer in respect of such deposits (normally calculated on the basis of the nominal value of the corresponding debt plus a spread to cover direct and indirect costs associated with it) is used to repay the interest payable in respect the outstanding securities issued by it.

As at 30 September 2014, the Issuer had €2.9 billion of senior and subordinated debt securities issued and outstanding. This is comprised of €454.9 million of debt securities issued pursuant to the Issuer's €12,000 million programme for the issuance of fixed income securities guaranteed by the Bank and registered with the Comisión Nacional del Mercado de Valores, the Spanish securities market regulator, as well as €2,478.4 million debt securities issued pursuant to the Programme described in this Base Prospectus. As at the date of this Base Prospectus, the aggregate figure stands at €3.1 billion. This increase corresponds to €161 million of debt securities issued since 30 September 2014 pursuant to the above mentioned €12,000 million programme of the Issuer.

## BANCO POPULAR ESPAÑOL, S.A.

### Information about the Guarantor

Banco Popular Español, S.A. (the "**Guarantor**" or the "**Bank**" or "**Banco Popular**") was incorporated for an indefinite period on 14 July 1926, under the name "*Banco Popular de los Previsores del Porvenir*", a public limited company registered in the Mercantile Registry of Madrid under volume (tomo) 174, sheet (folio) 44, page (hoja) 5,438 inscripción 1ª. It commenced operations on 1 October 1926, changing its name to "*Banco Popular Español, S.A.*" by a deed on 8 March 1947.

The Guarantor's registered office is at calle Velázquez nº 34, 28001 Madrid, Spain, telephone number +34 902 30 10 00.

The Guarantor is incorporated as a *sociedad anónima* (public limited company), and is governed by the Consolidated Text of the Capital Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010, dated 2 July, and associated regulations, as recently modified by Law 25/2011, dated 1 August, regarding the execution of rights from shareholders.

The purposes of the Guarantor (set out in Article 4 of the Guarantor's Articles of Association) are to:

- (a) carry out all kinds of operations in relation to securities and credit instruments, without prejudice to the provisions of stock trading and collective investment laws;
- (b) carry out active and passive credit and surety operations in its own name or on behalf of third parties;
- (c) acquire or transmit, in its own name, commission, shares, debentures, and other public and private securities, national or international, bank notes and coins from all countries and formulating public offers for the purchase and sale of securities;
- (d) receive and place cash and securities on deposit or administration. The Bank is not authorised under any circumstances to use the cash or securities placed in its custody on deposit;
- (e) perform all kinds of operations current accounts, time deposits, and others;
- (f) accept and grant administrations, representations, delegations, commission, agencies and other remits in the interest of those who use the Bank's services; and
- (g) perform all other private banking activities allowed by law.

Part or all of the activities included in the corporate purpose may be carried out indirectly by the Bank through the ownership of shares or participations in companies with similar or identical purposes.

Given its status as a financial entity, the Guarantor's activities are subject to supervision by the Bank of Spain. The Guarantor is registered in the Banks and Bankers' Registry (*Registro de Bancos y Banqueros*) registration 0075.

### Group Structure

The Banco Popular group is comprised of the Bank and its consolidated subsidiaries (the "**Group**").

### Share capital

The Board of Directors resolved in April 2011 to carry out a share capital increase with a charge to reserves in order to implement the "**Banco Popular Dividend**" programme. The par value of this capital increase amounted to €1,201,373.90, represented by 12,013,739 shares, each having a par value of €0.10, which were admitted to trading on the Spanish Stock Exchanges on 6 May 2011.

At a meeting held on 21 June 2011, the Board of Directors resolved to execute a further share capital increase with a charge to reserves approved by the Annual General Shareholders' Meeting on 21 June 2011. The par value of this capital increase amounted to €1,284,878.10, represented by 12,848,781 ordinary shares each having a par value of €0.10, which were admitted to trading on the Spanish Stock Exchanges on 20 July 2011.

At its meeting held on 19 October 2011, the Board of Directors resolved to carry out a share capital increase in order to service the conversion of certain notes pertaining to the issue entitled "*Subordinated Notes Necessarily Convertible into Banco Popular Español, S.A. Shares I/2009*", issued by Banco Popular, into newly-issued shares of Banco Popular. The par value of this capital increase amounted to €78,252.50 and the paid-in surplus was set at €6.911 per share (€5,408,030.28).

At its meeting of 20 December 2011, the Board of Directors resolved to carry out a share capital increase in order to service the conversion of certain notes pertaining to the issue entitled "*Subordinated Notes Necessarily Convertible into Banco Popular Español, S.A. Shares I/2010*", issued by Banco Popular, into newly-issued shares of Banco Popular. The par value of this capital increase amounted to €1,379,900.30 and the paid-in surplus was set at €3.1833 per share (€43,926,366.25).

At its meeting of 7 October 2011, the Board of Directors resolved to carry out a voluntary public offering for the acquisition of shares and necessarily convertible subordinated notes directed to all such outstanding Banco Pastor securities. At its meeting of 20 December 2011, the Board of Directors delegated authority to the Executive Committee meeting of 6 March 2012 to execute resolutions of the Board including the share capital pursuant to the public tender offer. The amount of the capital increase was set at €1,156,587.60 and the paid-in surplus was set at €3.162 per share (€36,571,299.91). At its meeting on 16 February 2012, the Executive Committee resolved to set the amount of the share capital increase at €37,043,384.50 (20.75 per cent. of the outstanding share capital as at that date).

The Board of Directors, at its meeting held on 25 January 2012, resolved to execute a share capital increase to offer its shareholders a new flexible remuneration system referred to as the "*Banco Popular Dividend*", which allows the shareholder to choose between receiving all or part of the dividend in cash or in newly-released shares of Banco Popular. At its meeting held on 23 March 2012, the Executive Committee resolved to set the amount of the share capital increase at €1,701,014.40. The capital increase was carried out at par, with no paid-in surplus.

At its meeting held on 25 April 2012, the Board of Directors resolved to proceed with the total conversion of the issue of "*Necessarily Exchangeable Subordinated Bonds I/2010*" issued by Popular Capital S.A. and the increase in share capital for an amount of €23,364,017.10 (11.41 per cent. of the share capital at that date). The paid-in surplus was set at €1.8461 per share (€431,323,119.68).

At its meeting held on 30 March 2012, the Board of Directors resolved to carry out a share capital increase for the maximum amount necessary in order to service the conversion of certain bonds pertaining to the issue entitled "*Subordinated Bonds Compulsorily Convertible into Banco Popular Español, S.A. Shares II/2012*" into newly-issued shares of Banco Popular. By virtue of this resolution, the Executive Committee, at its meeting held on 4 September 2012, resolved to set the amount of the share capital increase at €7,184.00. The paid-in surplus was set at €6.8452 per share (€3,914,359.17).

Following the above mentioned capital increases, the issued share capital of Banco Popular as of 15 November 2012 was €217,407,710.60 represented by a single series and class of 2,174,077,106 shares, with a nominal value per ordinary share of €0.10.

On 30 September 2012, the Board of Directors of the Bank resolved to carry out a capital increase of up to €2.5 billion, with preferential subscription rights for existing shareholders (the "**Capital Increase**"), taking place before 31 December 2012. The Capital Increase was agreed at the Extraordinary Shareholders General Meeting held on 10 November 2012.

On 4 December 2012, the Guarantor announced that, in accordance with the securities note in respect of the Capital Increase, registered on 12 November 2012 with the CNMV (the "**Securities Note**"), the Capital Increase had been fully subscribed to during the preferential subscription and additional subscription periods. The total number of shares subscribed to during the preferential subscription period and the number of additional shares requested amounted to 11,426,819,911 shares, representing 183.29 per cent. of the Capital Increase.

The preferential subscription period ended on 28 November 2012. During this period 6,229,596,909 newly-issued ordinary shares of the Guarantor were subscribed to, representing 99.92 per cent. of the Capital Increase. In a regulatory announcement (*Hecho Relevante*) dated 27 November 2012, Allianz, S.E., Américo Amorim, Banque Fédérative du Crédit Mutuel and Unión Europea de Inversiones, S.A.,



effectively exercised their preferential subscription rights in accordance with the terms of the irrevocable commitments they had previously entered into.

During the preferential subscription period, requests were made for 5,197,223,002 additional shares to be allocated during the additional subscription period, representing 83.36 per cent. of the total Capital Increase.

As the number of additional shares requested exceeded the number of shares available for allocation (4,817,055 shares), the Guarantor, in its capacity as agent of the Capital Increase, carried out the pro-rata allocation. The final percentage for the purpose of the calculation of the pro-rata allocation was 0.092 per cent., as described in the Securities Note.

As the Capital Increase was fully subscribed to during the preferential subscription and additional subscription periods, no discretionary allocation period has taken place.

In accordance with the expected timetable set out in the Securities Note, on 5 December 2012, the Guarantor executed the Capital Increase public deed for subsequent registration in the Mercantile Registry of Madrid. The admission to trading of the new shares from the Capital Increase on the Spanish Stock Exchanges took place on 5 December 2012, with commencement of trading on 6 December 2012.

On 6 May 2013, the Board of Directors of the Guarantor resolved to carry out (i) a capital reduction of €0.30 by the redemption of three treasury shares of a nominal value of €0.10 each; and (ii) the grouping of shares and the increase in the nominal value of the shares of the Guarantor by a ratio of five old shares with a nominal value of €0.10 each for one new share with a nominal value of €0.50 each, without any change in the amount of the Guarantor's share capital (the "**Reverse Split**"). The Reverse Split was implemented to reduce volatility in trading of the Guarantor's shares caused as a result of the €2.5 billion capital increase which had pushed the Guarantor's share price below €1. The capital reduction and the Reverse Split were agreed at the Ordinary Shareholders General Meeting held on 10 June 2013. The new shares with the new nominal value were listed on the Spanish Stock Exchanges and the Spanish stock market interconnection system (SIBE), commonly referred to as the Continuous Market, on 13 June 2013.

On 10 December 2013, the Board of Directors of the Guarantor resolved to carry out a capital increase to offer its shares to a small number of investors. At its meeting held on 11 December 2013, the Delegated Committee resolved to begin an accelerated bookbuilding process through a private accelerated placement, excluding pre-emptive acquisition rights and subject to obtaining the corresponding authorisations of the supervisory and regulatory authorities, for a nominal amount of €56,962,025 through the issuance of 113,924,050 new shares, which represents 6.39 per cent. of the current share capital of Banco Popular. The new shares were issued at a price of three euro and ninety-five cents (€3.95), €0.50 being the nominal value plus a share premium of three euro and forty-five cents per share.

On 18 December 2013, the Board of Directors of the Guarantor agreed to resume dividend payments to its shareholders in the amount of €0.04 per share against profit for the year 2013. On 29 January 2014, the Guarantor published the information document related to the increase of the share capital approved by the Ordinary General Shareholders' Meeting of Banco Popular held on 10 June 2013, under point 7 of the Agenda, implementing the flexible remuneration system for shareholders known as "*Dividendo Banco Popular: un dividendo a su medida*". Following this information, the Guarantor announced on 17 February 2014 that the final number of ordinary shares issued in the released capital increase came to 14,399,623 shares equivalent to 0.70 per cent. of the Guarantor's equity capital, and the capital increase came to a total of €7,199,811.50.

On 20 December 2013, the Board of Directors of the Guarantor, at its meeting held on 18 December 2013, approved the mandatory conversion of all the Subordinated Bonds Mandatorily Convertible into shares of Banco Popular Español, S.A I/2012, with ISIN Code ES0213790035, pursuant to section 4.6.3.c).3. of the Securities Note, filed with the Spanish National Securities Market Commission on 13 March 2012.

On 23 January 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares IV/2012, a total of 3,977,723 new shares were issued due to the conversion of one third of the nominal value of each of the 500 bonds in circulation.

On 20 March 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 66,513 new shares were issued due to the conversion of 1,190 bonds.

On 8 May 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares III/2012, a total of 15,916,745 new shares were issued due to the last partial conversion of one third of the total initial nominal amount of 2,569 bonds.

On 24 June 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 30,005 new shares were issued due to the conversion of 537 bonds.

On 22 July 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares IV/2012, a total of 3,162,555 new shares were issued due to the conversion of one third of the nominal value of each of the 500 bonds in circulation.

On 30 July 2014, regarding the flexible remuneration system for shareholders known as "*Dividendo Banco Popular: un dividendo a su medida*", the Delegated Committee of the Guarantor approved a share capital increase of €1,689,428, through the issuance of 3,378,856 new shares in order to attend the subscription requests made by the shareholders.

On 16 September 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 21,169 new shares were issued due to the conversion of 378 bonds.

On 24 September 2014, the Board of Directors of the Bank resolved to carry out a capital increase of €2,531,881, with preferential subscription rights for existing shareholders (the "Capital Increase"). The Capital Increase was agreed at the Ordinary Shareholders General Meeting held on 7 April 2014.

On 2 December 2014, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 62,518 new shares were issued due to the conversion of 1,114 bonds.

As at 31 December 2013 the Board of Directors represented approximately 16.512 per cent. of the Bank's share capital, institutional investors represented approximately 13.07 per cent. of the Bank's share capital and individual shareholders represented approximately 70.421 per cent. of the Bank's share capital.

Based on the information available to the Bank, there is no individual or corporation that directly or indirectly, through one or more intermediaries, exercises or may exercise any type of control over the Bank. By way of ensuring no abuse of control, various independent directors are appointed to the Board of Directors and the Bank has processes in place to monitor the purchase of its shares.

#### *Principal Subsidiaries*

As at the date of this Base Prospectus, the seven principal banking subsidiaries of the Bank are:

- Bancopopular-e, S.A., specialising in Internet banking in Spain (owned 51 per cent. by Värde Partners and 49 per cent. by the Bank);
- Popular Banca Privada, S.A., ("**Popular Banca Privada**") which provides private banking services in Spain (wholly owned subsidiary);
- Banco Popular Portugal, S.A. ("**Banco Popular Portugal**"), a commercial bank operating in Portugal (wholly-owned subsidiary). Banco Popular Portugal shares the Group's technological platform and is fully integrated with its central services, but it also maintains a structure of its own in order to comply with Portuguese regulations and to respond to the specific requirements of its customers;
- TotalBank, which provides a range of business and personal banking and financial products and services in the United States (wholly-owned subsidiary). This entity operates through fourteen branches located in Miami Dade County, in the state of Florida;

- Banco Pastor, S.A.U. ("**Banco Pastor**") which provides banking and financial services within the Spanish region of Galicia, with 236 branches spread throughout the region;
- Allianz Popular, specialising in insurance activities (owned 40 per cent. by the Bank and 60 per cent. by Allianz, SE); and
- Targobank, S.A. is a Spanish financial entity, owned 50 per cent. by the Bank and the other 50 per cent. by the French Group Crédit Mutuel-CIC.

#### *Other Subsidiaries and Affiliates*

The Group also includes other operating companies which provide a range of financial services offered by the Group, including factoring, mutual and pension fund management, securities intermediation, portfolio and asset management, life insurance broking, venture capital investment and equipment renting. Some of these companies are joint ventures between the Bank and other entities. The Group also includes companies which provide support for the Group's main activities and several other smaller companies.

The following table summarises the companies making up the Group and the Bank's ownership of such companies as at 31 December 2013:

	Registered Office	Business	Ownership Interest (%)		
			Direct	Indirect	Total
<b>Deposit-taking companies:</b>					
Banco Pastor, S.A. ....	A Coruña	Banking	100	—	100
B. Popular-e, S.A. ....	Madrid	Banking	95.85	—	95.85
Banco Popular Portugal, S.A. ....	Lisbon	Banking	100	—	100
Popular Banca Privada, S.A. ....	Madrid	Banking	100	—	100
TotalBank .....	Miami	Banking	100	—	100
<b>Financing companies:</b>					
Popular Factoring, S.A. (Portugal).....	Lisbon	Factoring	99.82	—	99.82
Pastor Servicios Financieros E.F.C., S.A. ....	A Coruña	Financial Instrumentality	100	—	100
Popular de Factoring, S.A. ....	Madrid	Factoring	100	—	100
<b>Portfolio &amp; Service Companies:</b>					
Gestora Popular, S.A. ....	Madrid	Share portfolio and ownership	35	65	100
PBP Cartera Premium SICAV, S.A. ....	Madrid	SICAV	56.02	—	56.02
Popular Bolsa SV, S.A. ....	Madrid	Stockbroker	100	—	100
Popular Gestão de Activos, S.A. ....	Lisbon	Pension Plan management	100	—	100
Popular de Participaciones Financieras, S.A. .	Madrid	Venture capital	100	—	100
Grupo La Toja Hoteles .....	A Coruña	Holding company	87.1	—	87.1
Sobrinos de Jose Pastor Inversiones, S.A. ....	Madrid	Holding company	100	—	100
Pastor Privada Investment 1, S.L. ....	A Coruña	Holding company	—	5	5
Pastor Privada Investment 2, S.L. ....	A Coruña	Holding company	100	—	100
Pastor Privada Investment 3, S.L. ....	A Coruña	Holding company	—	5	5
Pastor Privada Eolica 2, S.L. ....	Madrid	Wind power	—	100	100
Pastor Privada Eolica 3, S.L. ....	Madrid	Wind power	—	100	100
Popular Gestión Privada SGIC, S.A. ....	Madrid	Mutual Fund management	—	60	60
<b>Instrumentality companies:</b>					

	Registered Office	Business	Ownership Interest (%)		
			Direct	Indirect	Total
Aliseda, S.A.....	Madrid	Holding company	100	—	100
BPE Financiaciones, S.A. ....	Madrid	Financial Instrumentality	90	10	100
BPE Preference International, L.T.D. ....	George Town	Financial Instrumentality	100	—	100
Consulteam-Consultores de Gestão, S.A.....	Lisbon	Real estate management consultant	86.27	13.73	100
Finespa, S.A. ....	Madrid	Property instrumentality	4.19	95.81	100
Fondo Imopopular, FEIIF.....	Lisbon	Property investment fund	90	10	100
Gestora Europea de Inversiones, S.A.....	Madrid	Services Instrumentality	99.9	0.1	100
Gold Leaf Title Company .....	Miami	Financial Instrumentality	—	100	100
Inmobiliaria Viagracia, S.A. ....	Madrid	Property instrumentality	100	—	100
Intermediación y Servicios Tecnológicos, S.A.	Madrid	Services Instrumentality	99.5	0.5	100
Inversiones Inmobiliarias Alprosa, S.L.....	Madrid	Property instrumentality	68.25	31.75	100
Inversiones Inmobiliarias Canvives, S.L.....	Madrid	Property instrumentality	100	—	100
Inversiones Inmobiliarias Cedaceros, S.L.....	Madrid	Property instrumentality	—	100	100
Inversiones Inmobiliarias Gercebiso, S.L.....	Madrid	Property instrumentality	—	100	100
Inversiones Inmobiliarias Jeráguilas, S.L.....	Madrid	Property instrumentality	—	100	100
Inversiones Inmobiliarias Tamadaba, S.L. ....	Las Palmas	Property instrumentality	100	—	100
Isla de los Buques, S.A.....	Madrid	Financial Instrumentality	99.98	0.02	100
Manberor, S.L.....	Madrid	Real estate development	—	100	100
Meglaha, S.L. ....	Madrid	Real estate development	—	100	100
Popular Capital, S.A.....	Madrid	Financial Instrumentality	90	10	100
Popular de Mediación, S.A.....	Madrid	Insurance brokering	100	—	100
Popular Español Asia Trade, L.T.D.....	Hong Kong	Financial Instrumentality	100	—	100
Red Leaf Holding .....	Miami	Property instrumentality	100	—	100
Urbanizadora Española S.A.....	Madrid	Property instrumentality	7.19	90.55	97.74
IM Cédulas Grupo Banco Popular 5, FTA.....	Madrid	Asset securitisation fund	100	—	100
IM Cédulas Grupo Banco Popular 3, FTA.....	Madrid	Asset securitisation fund	100	—	100
IM Cédulas Grupo Banco Popular 1, FTA.....	Madrid	Asset securitisation fund	100	—	100
IM Banco Popular MBS 2, FTA .....	Madrid	Asset securitisation fund	100	—	100
BPE Representações y Participações, L.T.D.A.	São Paulo	Financial Instrumentality	100	—	100
Popular Cards, S.A. ....	Madrid	Financial Instrumentality	100	—	100
IM Grupo Banco Popular Empresas 1, FTA ...	Madrid	Asset securitisation fund	100	—	100
IM Grupo Banco Popular FT PYME I, FTA...	Madrid	Asset securitisation fund	100	—	100
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.....	Madrid	Debt collection	100	—	100
IM Grupo Banco Popular FT PYME II, FTA .	Madrid	Asset securitisation fund	100	—	100
Popular Arrendamiento-FIIF para Arrendamiento Habitacional.....	Lisbon	Property investment fund	84.42	15.58	100
FIB Realty Corporation .....	Miami	No activity	—	100	100
Total Sunset INC .....	Miami	No activity	—	100	100

	Registered Office	Business	Ownership Interest (%)		
			Direct	Indirect	Total
IM Grupo Banco Popular Empresas 5, FTA ...	Madrid	Asset securitisation fund	100	—	100
Pastor Participaciones Preferentes, S.A. ....	Madrid	Financial Instrumentality	100	—	100
Naviera Islas Cies, S.L. ....	Madrid	Financial Instrumentality	100	—	100
Naviera Cañada, S.L. ....	Madrid	Financial Instrumentality	100	—	100
Residencial Valdemar, S.L. ....	Madrid	Real estate development	—	100	100
IM Banco Popular FPYME 1, FTA ....	Madrid	Asset securitisation fund	100	—	100
Velázquez 34, S.A. ....	Madrid	Real estate	97.8	2.2	100
BPE Asesores, S.A. ....	Buenos Aires	Financial Instrumentality	68.2	31.8	100
EDT FTPYME Pastor 3. ....	Madrid	Asset securitisation fund	100	—	100
GC FTPYME Pastor 4. ....	Madrid	Asset securitisation fund	100	—	100
<b>Non-financial companies:</b>					
Eurovida, S.A (Portugal) ....	Lisbon	Insurance	84.07	15.93	100
Popular de Renting, S.A. ....	Madrid	Renting	100	—	100
Popular de Seguros, S.A. ....	Lisbon	Insurance	—	100	100
Vilamar Gestión, S.L. ....	Madrid	Property instrumentality	—	100	100
Finisterre, S.A. ....	A Coruña	Instrumental Inmobiliaria	—	87.1	87.1
General de Terrenos y Edificios Servicios Integrales, S.L. ....	Madrid	Property instrumentality	—	100	100
Gestora Inmobiliaria La Toja, S.A. ....	Pontevedra	Property instrumentality	89.71	10.29	100
General de Terrenos y Edificios, S.L. ....	Madrid	Property instrumentality	100	—	100
La Toja, S.A. ....	A Coruña	Hotels	—	87.1	87.1
Pastor Vida, S.A. ....	Madrid	Insurance	100	—	100
Cercebelo Asssets, S.A. ....	Madrid	Property instrumentality	100	—	100
Promoción Social de Viviendas S.A. ....	Madrid	Holding company	—	91.84	91.84
<b>Multigroup companies:</b>					
Targinmuebles, S.A. ....	Madrid	Real estate development	—	50	50
Inverlur Aguilas I, S.L. ....	San Sebastián	Real estate development	—	50	50
Inverlur Aguilas II, S.L. ....	San Sebastián	Real estate development	—	50	50
Targobank. ....	Madrid	Banking	50	—	50
Platja Amplaries, S.L. ....	Castellón	Real estate development	—	25	25
Sociedad Conjunta para la Emisión y Gestión de medios de Pago "Iberia Cards", S.A. ....	Madrid	Payment systems	42.5	—	42.5
Aliseda Servicios de Gestión Inmobiliaria, S.L. ....	Madrid	Real estate management	49	—	49
Saite, S.A. ....	A Coruña	Exploitation Concession	50	—	50
Saite-Cobal, S.A. ....	Madrid	Real estate development	—	50	50
<b>Associated companies:</b>					
Allianz Popular, S.L. ....	Madrid	Insurance	40	—	40
Aviacion Intercontinental, A.I.E. ....	Madrid	Financial Instrumentality	35	—	35
Inversión Área Sur, S.L. ....	Granada	Real estate development	—	50	50
Inversiones en Resorts Mediterráneos. ....	Murcia	Real estate development	—	20.98	20.98
Sistema 4B. ....	Madrid	Payment systems	27.42	—	27.42
Trindade Fundo de Investimento Imobiliario Fechado. ....	Lisbon	Real estate development	—	50	50
Amarres Deportivos, S.L. ....	Palma de Mallorca	Sporting marinas	—	3.33	3.33
Fotovoltaica Monteflecha, S.L. ....	Palencia	Photovoltaic energy	—	4.05	4.05
Metrovacesa, S.A. ....	Madrid	Real estate development	12.64	—	12.64
Nuevo Ágora Centro de Estudios, S.L. ....	Madrid	Education	—	30.86	30.86
Puertos Futuros, S.L. ....	A Coruña	Sporting marinas	—	49	49
Ronáutica Marinas Internacional, S.A. ....	Vigo	Services	—	22.1	22.1
Universal Pay , S.L.U. ....	Madrid	Payment entity	50	—	50

By virtue of the Guarantor's majority holdings in capital stock and voting rights or agreements with both its principal and other subsidiaries and affiliates, the Group operates as a single holdings unit with unified direction and management and common technical and support services. The banking and other subsidiaries of the Guarantor act as geographical or functional units forming part of the organisation, the primary differentiating features being those arising from the differing legal status of each entity.

### Business of the Group

The Guarantor's business is concentrated in the traditional domestic retail banking business of savings and loans. Through its specialised subsidiaries it also offers factoring, investment management, mutual and pension funds, stock broking, life assurance and mortgage lending. At the date of this Base Prospectus, the Guarantor's shares are listed on the Spanish Stock Exchanges, which are regulated markets for the purposes of MiFID.

### *Commercial Banking*

Commercial banking is the core business of the Group, and is comprised of: (i) corporate banking activity; and (ii) retail banking activity. At 31 December 2013, the Group provided financial services to more than 7,000,000 customers, companies and families through the extensive branch office network.

At 31 December 2013, the Group had 2,297 branch offices (in comparison to 2,475 in 2012) of which 2,097 were distributed throughout Spain with 200 located in Portugal and the United States. At 30 June 2014, the Group had 2,267 branches (2,067 in Spain and 200 in Portugal and the United States).

#### (i) *Corporate Banking*

The Group's corporate banking business was managing approximately 1.25 million customers at 31 December 2013, compared to 1.08 million customers at 31 December 2012 (an increase of approximately 36,210 new customers (net) in comparison to the total at 31 December 2011), and contributed 69.4 per cent. of the average total assets and approximately 83.6 per cent. of the gross operating income in respect of the financial year ended 31 December 2012. Corporate customers consist of large companies, SMEs, self-employed individuals and retail traders, and non-commercial undertakings. A large company is defined as a company with total assets of over €100 million and income of over €100 million. The SMEs category includes medium-sized companies with assets and income of €10 million to €100 million, small companies with assets and income of €1 million to €10 million and microcompanies with assets and income of under €1 million. Non-commercial undertakings include legal entities such as, for example, associations and sports clubs.

The segment with the greatest weight in the income statement is that of SMEs, which accounted for 56.1 per cent., compared with 29.8 per cent. in 2011. Self-employed individuals and retail traders together accounted for 11.6 per cent. of the Guarantor's gross operating income in 2012.

#### (ii) *Retail Banking*

Banking for private individuals comprises 83 per cent. of the Group's total customers. The segment is broken down into personal banking, banking for private individuals and mass banking.

Personal banking customers are considered to be those with more than €50,000 in resources. The difference between banking for private individuals and retail banking is based on the level of personalised attention and degree of connection with the Guarantor.

Within banking for private individuals there are specific groups of customers which are the focus of the Group's business strategy, as they require a higher level of service. These are homogeneous groups of customers who are generally grouped by their profession.

### *Commercial Banking in Spain*

In Spain the business is mainly carried out through Banco Popular and, in Galicia, also through Banco Pastor. Its main activity is commercial banking and a distinction may be made between individual and corporate customers. The Group also has two specialised banks: Popular Banca Privada, S.A. (private banking), Bancopopular-e, S.A. (Internet banking) and a bank in which equal 50 per cent. stakes are held by the Bank and Crédit Mutuel, Targobank, S.A. which carries out its activities throughout Spain.

### *Commercial Banking abroad*

The commercial banking business in Portugal is conducted mainly through Banco Popular Portugal and is also focused on retail banking, primarily for SMEs. The total assets at the Portuguese bank totalled €3,318 million, of which €5,587 million relate to customer loans (gross). Compared with 2012 gross credit fell by 8.1 per cent. as a result of both the economic environment and the restructuring of the credit portfolio that was carried out in 2013. The financing structure recognised an increase in customer deposits of 8.1 per cent. bringing the total to €4,249 million at the end of the year.

Banco Popular Portugal saw its gross margin decline by 8.24 per cent., fundamentally as a result of the 15.85 per cent. decrease in interest margin (almost €27 million). There was a significant increase in the profit from financial operations, amounting to €11 million. The typical operating margin was 16.17 per

cent. lower than the figure seen last year, although administration expenses have remained practically constant.

There was an increase in the allocations for credit impairment totalling almost €50 million compared with last year, which led to a net loss of €1.7 million compared to the €2.7 million in profits recognised the preceding year.

The commercial banking business in the United States is carried out through TotalBank, an entity that was acquired at the end of 2007, and which operates in the State of Florida. At the end of the year this bank had 19 branch offices and 444 employees. Its total assets amounted to US\$2,542 million (which is a 5.68 per cent. increase compared with 2012) of which US\$1,543 million relate to gross credit to customers, consolidating the growing trend over the past few years.

In a macroeconomic and financial environment that is still returning to normal, the Bank achieved US\$12.8 million in profits in 2013.

In Mexico, Banco Popular recently acquired, with effect from 9 September 2014, a 25% stake in Grupo Financiero Ve Por Más, S.A. de C.V. ("**Ve Por Más**"), an unlisted financial services group in which the del Valle family holds a controlling stake. The group operates four main subsidiaries (a bank, a brokerage firm, a leasing company and a funds management company) and as at 30 June 2014 it had total assets of MXN 30,170 million, total lending of 14,364 million and total deposits of 9,460m. Based in Mexico City its proprietary distribution network affords a presence in 27 cities (branches and sales offices). Net profit for the first 6 months of 2014 amounted to MXN 142 million.

Ve Por Más, whose external signage is BX+, is a firm which has one of the lowest bad debt ratios among the 46 banks with a license to operate in the country (1.4% at 30 June 2014). The newly appointed group CEO, Tomas Ehrenberg Aldford, was recently hired from Banamex and has a background and experience in Corporate and Retail banking. His main task will be to treble the size of the group over the next four years.

Over the past 5 years (2009 – 2013) net profits grew by c. 42% annually (CAGR) whilst lending grew by c. 28% and deposits by c. 8%. Approximately 650 staff work in the different subsidiaries of the Group.

### **Asset management**

The Group's asset management business is comprised of: (i) collective investment institution management activities; (ii) individual and collective pension plans management; and (iii) private banking. This business is managed by two collective investment institution managers in Spain and one in Portugal, and two pension plan managers, one in each of Spain and Portugal.

There was a clear recovery in the sector in 2013 due to the low prices applied to traditional bank deposits.

#### *(i) Collective investment institution management*

At the end of the year, the assets managed by collective investment institutions in Spain totalled €8,202, which is an increase of 32.18 per cent. compared with the €6,205 at the end of 2012. The number of participants has risen to 309,559, compared with the 289,298 recorded last year. The performance of the Group was above that of the sector in which increases in equity and participants were 25.75 per cent. and 13.9 per cent., respectively.

For the Group the past year was marked by the increase in fixed-income funds due to the fact that investors seek higher yields given the low interest rate situation for traditional deposits. All of this has contributed to the Group's market share rising to 5.33 per cent.

#### *(ii) Individual and collective pension plans management*

This activity is mainly carried out through Allianz Popular Pensiones, E.G.F.P., S.A. The activity in Portugal is performed by Eurovida, a wholly owned subsidiary of Banco Popular.

The assets managed by Europensiones totalled €5,181 million at the end of 2013, which is a 21.33 per cent. increase compared with the €4,270 million recorded at the end of 2012. A portion

of these increases derived from the acquisition of the fund management business from Pensiones Pastor Vida by Allianz Popular Pensiones.

The assets managed in individual schemes at 31 December 2013 totalled €3,959 million, with €1,169 million in occupational plans and €3 million in associated schemes.

The Group's market share has increased slightly during the year in Spain. At 31 December 2013 it was 5.61 per cent. based on assets and 7.54 per cent. based on the number of participants. In turn, the market shares in the primary business of individual plans were 6.83 per cent. and 8.82 per cent. at the same date, and showed growth compared with 2012.

(iii) *Private banking*

The Group also offers its services to wealthy customers through its specialised bank, Popular Banca Privada. This bank has 28 branch offices in the main Spanish cities through which it renders its services both to customers from the Group's network as well as direct customers.

Popular Banca Privada engages in the provision of such advisory and management services to high-income customers with assets under management or advisory services totalling at least €300,000. The broad range of investment products and services offered are managed by a team of tax, legal, real estate, financial and corporate experts and others specialising in non-conventional investments. This provides coverage to customer asset needs and allows them to optimise their returns and the tax impact of their decisions.

At the end of 2003 the Group held a 60 per cent. stake in capital and voting rights. However, in 2013 the foundation was laid so that in January 2014 Banco Popular could execute the purchase option it held over the remaining 40 per cent. of the equity in Popular Banca Privada, held since 2001 by the French-Belgian Group Dexia. Popular Banca Privada thus becomes the only independent bank pertaining to a large Spanish financial group specialising in the professional management of this kind of customer.

Popular Banca Privada has obtained customer funds totalling €404 million.

At 31 December 2013, Popular Banca Privada had 5,005 specific customers, 410 more than in 2012, and managed assets (understood to be total resources and customer investments plus assets under management and advisory services) totalling €5,807 million, which is 14.63 per cent. higher than at the end of 2012.

The profit before taxes reached €1.5million.

## **Insurance**

The Bank's insurance business unit is focused on pension and insurance products that include life insurance (both as a means of savings and life policies linked to credit transactions), miscellaneous insurance (mainly home, health and car insurance) and those linked to retirement. The products offered are adapted to each of the Bank's various businesses and customer segments, whether individuals, companies or institutions.

Allianz Popular Vida and Eurovida Portugal are the Group's two primary life insurance companies. The former, as is previously indicated, is owned by Allianz Popular Holding, while Eurovida Portugal is wholly owned by the Group. The latter company distributes non-life Allianz insurance through its branch offices and Popular de Mediación, which is wholly owned by Banco Popular.

At 31 December 2013 the on-balance sheet assets held by the Spanish insurance company grew to nearly €1,518 million from €1,338 million at the end of 2012. This is a 13.45 per cent. increase and consolidates the growth seen over the past few years.

The non-life insurance business in Portugal is managed by Popular Seguros. Popular de Mediación also operates as an associated bancassurance partner and both companies are wholly owned by the Group.



## **Investments and market activities**

The Group's investments and market activities include: (i) raising of funds in the wholesale and inter-bank markets; (ii) treasury activity assigned to the held-to-maturity, the available-for-sale and the trading portfolios; (iii) asset and liability hedging operations; and (iv) management of tangible and intangible assets, including non-current assets for sale. Also assigned to this business area are the asset and liability balances arising from pensions, tax assets and liabilities, risk provisions, and other assets and liabilities.

The Bank's activity in this area has concentrated on the tactical management of its fixed income portfolio, which during the second half of the year provided a smaller contribution to interest income. However, the results obtained on financial operations increased by 65.47 per cent. compared with December 2012, partially due to the sale of the debt portfolio.

Profit before taxes at the end of 2013 were €572.4 million, which represents a 15.15 per cent. reduction compared to the end of 2012.

## **Financial Overview**

### *Income and expenses*

At 31 December 2013 the Group had total assets of €147,852 million, customer funds of €89,988 million and own funds of €1,925 million. The Group's net income for the year ended 31 December 2013 was €325 million.

At 30 September 2014, the Group had total assets of €159,993 million, customer funds of €92,654 million and own funds of €2,841 million. At this date net interest income had decreased by 5.2 per cent. (in comparison to the figure at 30 September 2013) to €1,760 million.

### *Assets and liabilities and solvency*

2013 was mainly marked by the successful end of the Spanish financial system restructuring process after the results of the stress tests carried out by Oliver Wyman that forced the nationalisation of several entities.

From a macroeconomic point of view the year ended with symptoms of improvement in general economic terms, particularly during the second half of the year as there was a continuous decline in the risk premium on Spanish bonds compared with the German rate, which fell to around 200 basis points.

The primary milestone with respect to the regulatory area is the transformation of the Basel III Accord to legislation in force which will commence on 1 January 2014 as a result of the approval of two legal instruments: Regulation (EU) 575/2013 by the European Parliament and Council (26 June 2013) regarding the prudence requirements for credit and fusions and investment service companies and which amends Regulation (EU) 648/2012 (hereinafter RRC); and Directive 2013/36/EU of the European Parliament and Council (26 June 2013) relating to access to credit institution activities and the prudent supervision of credit institutions and investment service companies, which amends Directive 2002/87/EC and repeals the Directives 2006/48/EC and 2006/49/EC (hereinafter Directive).

At a national level, Royal Decree-Law 14/2013 (29 November) on urgent measures to adapt Spanish legislation to European Union legislation regarding the supervision and solvency of financial institutions has applied the most urgent adaptations of the Spanish legal system to the novelties deriving from the Directive and the RRC, authorising the Bank of Spain to make use of the options attributed to competent national authorities.

The Bank of Spain issued a circular letter at the end of 2013 that is still in a consultative process. Its objective is to establish, based on the authority conferred, which options attributed by the RRC to the competent national authorities must be complied with by consolidated groups of credit institutions and Spanish credit institutions (regardless of whether or not they are included in a consolidated group) and to what extent. It also determines the manner in which the entities will have to comply with the transitional regulatory options established by the RRC. This circular letter repeals all those regulations established by ECB 3/2008 that are incompatible with the RRC.

In 2013 the new requirements established by Bank of Spain Circular 7/2012 (30 November) have been applied to credit institutions which relate to the minimum principal capital requirements and greatly exceed the 9 per cent. established by law.

The new principal capital requirements originate from Royal Decree-Law 24/2012 (31 August) on the restructuring and resolution of credit institutions, and Final Provision Seven amended those requirements. They had previously been established by Royal Decree-Law 2/2011 (18 February) on the strengthening of the financial system. Royal Decree-Law 24/2012 was repealed by Law 9/2012 (14 November) on the restructuring and resolution of credit institutions, and has an identical content for these purposes. Specifically, Law 9/2012 changed the requirement for 8 per cent. principal capital established in general and the 10 per cent. established for entities with difficult access to capital markets and for which wholesale financing predominates, into a single requirement of 9 per cent. that must be met by the aforementioned entities and groups as from 1 January 2013.

The objective of this law was to adapt the definition of principal capital to that used by the European Banking Authority with respect to both computable items as well as applicable deductions, in accordance with Recommendation EBA/RTC/2011/1, which increased the CET1 ratio to 9 per cent. as part of a group of measures intended to re-establish confidence in the banking sector.

Based on Recommendation EBA/RTC/2013/03, in July of this year the EBA has enabled the competent authorities to waive this minimum when they consider that capital continuously exceeds the minimum CET1 capital requirements calculated in accordance with the rules established by the Directive and Regulations, once fully implemented. The minimum requirements for CET1 have been set in the Circular Letter at 4.5 per cent. during the consultation process with the Bank of Spain.

Throughout 2013 the process of reforming, restructuring and recapitalising the Spanish banking sector has continued making advances in accordance with the Memorandum of Understanding. For these purposes, the Bank of Spain has developed a tool that allows prospective analyses to be performed in order to evaluate the sensitivity of the Spanish Banks' solvency under various macroeconomic scenarios. The tool (FLESB, an acronym for Forward Looking Exercise on Spanish Banks) will be subjected to a continuous improvement process over the course of time such that they may progressively apply the best practices in this area and, simultaneously, accommodate the supervisor's needs as they develop. The first results that are available show that all of the analysed entities have a comfortable solvency situation under the three macroeconomic scenarios taken into consideration.

In order to comply with the new capital rules, Banco Popular carried out calculations to quantify the impact of the reforms during the second half of 2013 and the most significant were as follows:

- Computable equity: a larger deduction for deferred tax assets totalling €602 million.
- RWA: an RWA that is €3,496 higher due to deferred tax assets.

The table below shows the overall changes to the capital ratios of the Group since 31 December 2012:

	<b>At 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>(thousands of euro except percentages)</i>	
<b>Total EBA core capital</b> .....	<b>9,024,864</b>	<b>8,933,933</b>
EBA Core capital (%).....	11.21	10.06
<b>Total Tier I capital</b> .....	<b>9,656,504</b>	<b>9,099,459</b>
Tier I ratio (%).....	11.99	10.25

	At 31 December	
	2013	2012
<b>BIS eligible capital</b> .....	<b>9,873,584</b>	<b>9,788,006</b>
BIS ratio (%) .....	12.26	11.03
Memorandum items.....		
Total BIS risk-weighted assets <sup>(1)</sup> .....	80,526,024	88,756,823

Notes:

(1) Includes credit risk, exchange rate risk, market risk and operational risk.

Certain transactions took place in 2013 and decisions have been taken to reinforce the capital ratios. The most important milestones were as follows:

- In April and October €379 million of the BSOC I and BSOC III were converted.
- In October €500 million in perpetual convertible bonds were issued.
- In November 31 million of the ONC I/2009 were converted into shares.
- In December new investors entered, with a contribution of €450 million to capital.

The Group continues to improve its risk management and control policies in order to reduce the risk of its assets and thus improve its long-term solvency. The Bank has internal models that have been ratified by the Bank of Spain to measure the credit risk of a large part of its portfolios.

The portfolios that have been validated by the Bank of Spain for the use of these models are: (i) Financial institutions, (ii) Large companies, (iii) Medium-sized companies, (iv) Small companies, and (v) Retail mortgages.

It should also be indicated that there are other internal models for other portfolios that are currently being validated by the Bank of Spain and, therefore, the capital calculation will be done using the standard method.

Within the framework of the management of all of the processes relating to the calculations of expected losses and regulatory capital required, the Bank maintains a database of all of its exposures (risk) that are currently active. This database includes all of the data that is necessary and calculations deriving from the joint and coordinated effort of multidisciplinary areas that transversely cover all of the Bank (technologies or risk and business-specific). All of these processes are updated on a monthly basis to include new data, legislative changes, improvements in the estimates of the parameters or in the risk mitigation processes due to guaranties, etc.

With regard to updating the risk parameters, last calibrated in 2013 for the Bank's IRB portfolios and following the technological integration in October 2013 with Banco Pastor (after Banco Popular took control of that entity in 2012), this has resulted in the inclusion of the risks of Banco Pastor in all of the relevant calculations. The two following measures have also had an important effect on the improvement of financing for SMEs:

1. New segmentation of SMEs (Official State Gazette-A-2013-10612, 12 October 2013), which publishes the Bank of Spain Circular Letter 3/2008, which is based on the European

Recommendation 2003/361/EC of the European Commission (6 May 2003). With this new definition, based on the business volume, general balance sheet and number of employees, the status of a SME is clarified and unified in order to determine which ones are eligible for the European Union programs and policies intended for such companies, taking into account the relevant role that they play for economic growth and employment and the difficulties they face for access to financing.

2. SME support factor (Official Statement A-2015-10074, 28 September 2013), based on the new definition of SMEs, which reduces capital/RWA requirements under certain conditions, in order to encourage financial institutions to finance their activities.

At 31 December 2013, the Group was managing assets worth €164,224 million (compared with €172,259 million at 31 December 2012) and on-balance sheet funds of €147,852 million (compared with €157,618 million at December 2012), with a capital base of €10,798 million. At 30 September 2014, the Group had total assets worth €176,904 million and on-balance sheet funds of €159,993 million.

As at 30 September 2014, as a result of managing retail funds and on-balance sheet credits, the commercial gap was €7,427 million.

The non-performing ratio (which is the ratio of the Group's NPLs over the Group's total loans) was 14.31 per cent. at 31 December 2013.

The table below shows the Group's NPL ratios and coverage for the years ended 31 December 2012 and 2013, and the nine month period ended 30 September 2014:

(thousands of euro except percentages)	30/09/2014	31/12/2013	31/12/2012
Total risk	148,319,799	148,332,106	155,582,005
Non-performing loans	20,541,899	21,225,441	13,976,733
NPL ratio ( per cent.)	13.85	14.31	8.98
Coverage ratio - past-due loans and defaults ( per cent.)	54.75	50.97	73.65
Coverage ratio - past-due loans excl. defaults ( per cent.)	43.94	40.16	65.44
Coverage including collateral ( per cent.) (1)	102.87	99.21	115.16

Notes:

- (1) Risk coverage ratio including the value of guarantees after the haircuts defined in Annex IX to Bank of Spain Circular 4/2004.

### Profit

At 31 December 2013, and for the nine months ended 30 September 2014, the Group had a profit attributable to the controlling company of €325 million and €231 million, respectively.

### Liquidity

Since the beginning of the global economic crisis in 2007, the Group has considered it essential to reduce its dependence on the capital markets (short and long term) and to extend the terms of its financing. The Group's financing strategy has been to take on retail liabilities through products that meet retail requirements and at the same time provide stability to the Group balance sheet. This strategy rests on the ability to access private individuals and business customers through the Group's commercial network. At 31 December 2013, the commercial gap was €9,002 million, resulting in a loan-to-deposit (LTD) ratio of 110 per cent. This means that the gap was reduced by over €8,694 million in 2013 and the LTD ratio fell by 11 percentage points.

The Group increased its retail financing during the year by €1,856 million to €84,908 million, which is 64.9 per cent. of all of the Group's financing, and has the following composition: (i) 57.5 per cent. in demand accounts, term deposits and promissory notes, (ii) 2.2 per cent. in products placed through the branch office network, and (iii) 5.2 per cent. in ICO deposits. Wholesale financing decreased by €2,883 million, mainly due to the lower dependence on short term sources which represent 14.7 per cent. of the

entire Group's financing. This financing is diversified among a broad variety of financing sources, notably mortgage bonds, which represent 67.6 per cent. of this heading and the collateral may be reused. The financing from clearinghouses and other market repos make up 12.0 per cent. of total financing at €15,714 million during the year.

Finally, financing from official bodies fell during the year by €13,883 million, which represents 8.4 per cent. of total financing. This heading records the funds obtained through public or supra-national entities; specifically, it includes the financing obtained from the ECB, the Public Treasury and official government administrations. The decline in the investment portfolio, the improvement in the commercial gap and the increase in financing from clearinghouses and the public treasury has allowed the funds obtained from the ECB to be reduced by €15,500 million during the year to €3,400 million in December 2013.

Retail financing is proving to be very stable in this portion of the economic cycle and demand and term deposits, together with promissory notes placed through the branch office network, increased during the year by €1,258 million, which shows the loyalty of Banco Popular's customers.

In the wholesale financing area, Banco Popular has taken advantage of the issue opportunities that existed in the wholesale markets in 2013 and placed €4,404 million during the year, €1,744 million in senior debt, €2,160 in mortgage bonds and €500 million in contingently convertible perpetual bonds (additional Tier I). This amount is 103 per cent. of debt maturities for the year. In addition, the Bank has carried out an accelerated capital placement totalling €450 million, which not only strengthens the Bank's capital but it has given rise to the entry of liquidity.

The Group had available eligible cash assets at 31 December 2013 with which it could obtain financing totalling €14,259 million (€15,621 million in the third quarter of 2014).

To increase the source of liquidity guarantees by alternative liquid assets for the ECB, within its strategy of diversifying sources of financing and reducing costs since 2010, the Bank has been a member of the three main European counterparty clearing houses: LCH London, LCH Paris and Eurex repo, together with other international banks. This allows funds to be obtained for terms covering from one day to one year and at market interest rates. The counterparty clearing houses act as guarantors of the transactions carried out between financial institutions, which allow risks to be minimised. In 2013 operations with clearinghouses actively continued with a balance of €14,906 million, which is a €4,546 million increase compared with 2012.

#### *Credit Quality*

At 31 December 2013, the balance of troubled risks or non-performing loans amounted to €1,225 million, an increase of €7,249 million in comparison to 2012. This was the outcome, on the one hand, of a gross addition to the exposure for non-performing loans of €12,744 million and recoveries of €3,661 million and, on the other, of the write-off of €1,834 million of non-performing balances

The non-performing ratio was 13.85 per cent. at 30 September 2014. In the same period in 2013 the ratio was 11.84 per cent. The non-performing ratio was 14.31 per cent. at 31 December 2013, compared with 8.98 per cent. at 31 December 2012. The total risk premium (losses for impairment of loans and receivables/average balance of lending to customers) was 2.18 per cent. at 30 September 2014, a increase of 1.19 per cent. over the same period in 2013. At the end of 2013, the total risk premium was 1.12 per cent., compared with 3.92 per cent. at 31 December 2012.

At 31 December 2013, consolidated profit for the year totalled €328.2 million. Over the course of the year it made significant efforts to generate capital gains (ordinary and extraordinary), for example and in particular through the sale of the real estate management business.

In total, in 2013 €62 million in extraordinary capital gains were generated, fundamentally from the real estate servicing transaction (€10 million), the sale of a portion of the Pastor Vida, S.A. de Seguros y Reaseguros business (€21 million), alliances in the ATM and collection business (€89 million), as well as sales of foreclosed and bank-owned properties and other items (€42 million).

Based on the aforementioned operating margin and taking into account the transitional macroeconomic environment, a policy was implemented to apply €2,718 million to provisions during the year. Of total provisions, €1,535 million related to appropriations to provisions for credit and other items and €1,183

million related to provisions for real estate assets – all of these items were charged to the profit and loss account.

As at 30 September 2014 the Group had an overall NPL ratio of -13.85 per cent. while the coverage of doubtful risks totalled 44 per cent.

#### *Investments*

During the last months of 2013, the Bank and the Mexican Financial Group BX+ developed a strategic alliance to offer banking products and services in the SME and family segments in Mexico and reached an agreement under which Banco Popular will acquire 24.9 per cent. of the Mexican Group, while the del Valle family (majority shareholder of BX+) and other parties acquired 6 per cent. of the share capital of Banco Popular.

The search for strategic partners materialised in 2013 through the agreements reached with several entities for the joint operation of businesses, among which those carried out with Credit Mutuel for the operation of ATMs and Värde Partners - Kennedy Wilson for the management of the real estate business are notable.

On 29 April 2013 the Guarantor filed a relevant event announcement (*Hecho Relevante*) in relation to the constitution of a 50/50 joint venture with Euro Information (Group Credit Mutuel-CIC) under which the latter will benefit from the use of the Guarantor's cashpoint network in Spain. This is the second partnership agreed by the Guarantor in the Payment Process business, after the agreement signed in December 2012 with the multinational company EVO Payments.

On 25 November 2013, the Guarantor filed a regulatory announcement (*Hecho Relevante*) in relation to the exercise of a draft agreement with Värde Partners and Kennedy Wilson for the sale of its property management business. On 27 December 2013, the Guarantor announced that the aforementioned agreement with Värde Partners and Kennedy Wilson for the sale of the Guarantor's real estate management, comprising both the real estate assets awarded to Banco Popular and specific loans related to land development and real estate building, had been fully signed. The total of the purchase amounted to €715 million, plus an additional €100 million as an earn-out, depending on the future evolution of the transaction. It was stated that the sale of this business would generate a profit of €710 million for Banco Popular in the present year.

In 2013, Banco Popular laid the foundation to execute the purchase option it held in January 2014 for 40 per cent. of the share capital in Popular Banca Privada, which had been in the hands of Dexia Group since 2001. As a result, Popular Banca Privada became the only independent bank pertaining to a large Spanish financial group and it specialises in that customer segment.

Banco Popular also segregated Banco Pastor in Galicia, after having taken over all of the national business.

The Board of Directors of the Guarantor approved on 27 February 2013 the segregation of its main business relating to card payment in Spain into a new company that will be called Universalpay, Entidad de Pago, S.L. The Segregation Project has been formulated and signed by the Board of Directors of the Guarantor. Consequently, Universalpay, Entidad de Pago, S.L. shall acquire by universal succession all the rights and obligations of the card payment business being segregated, and the Guarantor shall receive all the shares from the new company after its creation.

#### **Recent Developments**

The most significant acquisitions and disposals of investments in Group entities and other relevant corporate transactions from 31 December 2011 to the date of this Base Prospectus are as follows:

##### *Acquisition of Banco Pastor*

In October 2011 the Guarantor launched a tender offer to purchase all of the shares and mandatorily convertible subordinated bonds of Banco Pastor, after being successful in a competitive bidding process involving several national and international institutions. The Banco Pastor acquisition was completed on 17 February 2012 and Banco Pastor was fully consolidated with the Group as at 17 February 2012. As a result, the impact of the Banco Pastor acquisition on the Group's financial position is reflected in the

Group's consolidated balance sheet as of 31 December 2012 and the impact on the Group's results of operations is reflected since 17 February 2012 in the Group's consolidated income statement for the year ended 31 December 2012, in each case included in the audited consolidated annual accounts as of and for the year ended 31 December 2012 incorporated by reference.

The Deed of Merger between Banco Popular and Banco Pastor was registered at the Mercantile Registry of Madrid on 28 June 2012.

This transaction resulted in the formation of an institution with approximately €160,000 million in assets, over eight million customers, more than 16,000 employees, approximately 2,500 branches and a combined market share of 18.71 per cent.

Founded in 1776, Banco Pastor was Spain's second oldest bank and had assets of over €31,000 million, 575 branches, and equity of over €1,700 million at 31 December 2011. There were loans to customers of over €21,000 million and deposits of €15,000 million, with a mixed market share of 9.8 per cent. in Galicia as of 31 December 2011 (*source*: Bank of Spain).

#### *Negotiations for acquisition of retail banking and payment cards business in Spain*

On 23 June 2014 as a result of on-going negotiations, the Guarantor entered into certain arrangements with Citibank España, S.A. for the acquisition of its retail banking and payment cards businesses in Spain.

On 22 September 2014, the Guarantor announced the signature of the definitive agreements to acquire the cards and retail businesses of Citibank España, S.A. by Bancopopular-e, S.A. The total amount of the transaction has been 238.5 million euro.

#### *Sale of depositary services*

On 30 April 2014, the Guarantor announced the agreement of the sale to BNP Paribas Securities Services of the depositary services and the investment funds custody business, pension schemes, SICAVs and EPSVs (Voluntary Mutual Benefit Organisations) in Spain.

#### *Sale of Bancopopular-e*

On 19 December 2014 the Guarantor announced (once the relevant regulatory approvals were obtained), the signature of the definitive agreements with Värde Partners for the sale to this entity of 51 per cent. of Bancopopular-e S.A., which owns the entire card issuing business of the Group.

#### *Business Plan 2012/2014 and Recapitalisation Plan*

On 6 June 2012, Banco Popular filed a regulatory announcement (*Hecho Relevante*) disclosing its plan to comply with the requirements of Royal Decree-Law 2/2012 and Law 8/2012 (formerly Royal Decree-Law 18/2012). On 27 July 2012, Banco Popular presented its first half results for 2012 and disclosed information about the development of its Business Plan approved by the Bank of Spain. On 28 September 2012, the Bank of Spain published the results of the stress tests exercise carried out by Oliver Wyman in furtherance of the external financial assistance requested by the Spanish government in the context of the ongoing restructuring and recapitalisation of the Spanish banking sector. For Banco Popular, the results were as follows:

- in the base scenario, Banco Popular had a capital excess of €77 million; and
- in the adverse scenario Banco Popular had a capital shortfall of €3,223 million.

In response to the conclusion that Banco Popular had a capital shortfall under the "adverse" scenario, the Board of Directors submitted a recapitalisation plan to the Bank of Spain (the principal elements of which were approved by the Board of Directors on 30 September 2012 and submitted to the CNMV on 1 October 2012) (the "**Recapitalisation Plan**"). The Bank of Spain approved the Recapitalisation Plan on 31 October 2012. The Bank of Spain concluded, together with the European Commission, that Banco Popular would be classified as a group 3 bank (entities with needs of capital equal to 2 per cent. or more of risk-weighted assets).

By 31 December 2012, the Bank had successfully completed all the points included in its Recapitalisation Plan.

## Administrative, Management and Supervisory Bodies

### Board of Directors

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

Last appointed	First appointed	Name	Title	Type
11/06/2012	18/12/2003	Francisco Aparicio Valls	Secretary-Director	Executive
10/06/2013	30/01/2013	Francisco Gómez Martín	CEO	Executive
11/06/2012	21/06/2001	Luis Herrando Prat de la Riba <sup>(2)</sup>	Vice Chairman-Director	Independent
07/04/2014	30/05/2008	Roberto Higuera Montejo <sup>(3)</sup>	Vice Chairman	Independent
20/12/2011	20/12/2011	Alain Fradin <sup>(6)(*)</sup>	Director	Large shareholder
20/12/2011	28/04/2011	Ana María Molins López-Rodó <sup>(7)</sup>	Director	Independent
11/06/2012	30/05/2007	Helena Revoredo Delveccio	Director	Independent
07/04/2014	14/03/2002	Ángel Carlos Ron Güimil	Chairman	Executive
11/06/2012	28/06/1988	Sindicatura de Accionistas de BPE <sup>(4)</sup>	Director	Large shareholder <sup>(*)</sup>
07/04/2014	19/12/2007	Vicente Tardío Barutel	Director	Large shareholder <sup>(*)</sup>
19/05/2009	19/05/2009	Unión Europea de Inversiones, S.A. <sup>(5)(**)</sup>	Director	Large shareholder <sup>(*)</sup>
11/06/2012	11/06/2012	José María Arias Mosquera <sup>(9)</sup>	Vice Chairman-Director	Large shareholder <sup>(*)</sup>
11/06/2012	11/06/2012	Barrié de la Maza Foundation <sup>(10)</sup>	Director	Large shareholder <sup>(*)</sup>
10/06/2013	30/01/2013	Jorge Oroviogoicochea Ortega	Director	Independent
07/04/2014	07/04/2014	Antonio del Valle Ruiz	Director	Large shareholder <sup>(*)</sup>

<sup>(1)</sup> Representative: Francisco Aparicio Valls since 1 March 2011, replacing Roberto Higuera Montejo.

<sup>(2)</sup> Luís Herrando Prat de la Riba was appointed Vice Chairman at the General Shareholders Meeting held on 30 May 2008.

<sup>(3)</sup> Roberto Higuera Montejo. Appointed Deputy Chairman at the General Meeting of Shareholders held on 30 May 2008.

<sup>(4)</sup> Representative: Since 30 January 2013, Miguel Solís replacing Carlos Figuero García.

<sup>(5)</sup> On 4 April 2014, José Ramón Rodríguez García was appointed representative of Unión Europea de Inversiones, S.A., replacing Vicente Pérez Jaime.

<sup>(6)</sup> Alain Fradin was appointed Director, classified as large shareholder representative at the Extraordinary General Shareholders Meeting held on 20 December 2011, representing Banque Fédérative du Crédit Mutuel and replacing Michel Lucas.

<sup>(7)</sup> Ana María Molins López-Rodó was appointed Director by co-option on the Board of Directors on 28 April 2011, her appointment ratified by the Extraordinary General Shareholders Meeting held on 20 December 2011.

<sup>(8)</sup> Helena Revoredo Delveccio is shareholder of Prosegur, S.A. and holds 50.11 per cent. of the company's voting rights. She also holds the Chair of the Board of Directors.

<sup>(9)</sup> Jose María Arias is a Director on a personal basis.

<sup>(10)</sup> Representative: Ana José Varela González.

<sup>(\*)</sup> Directors are classified as representing large shareholders when their direct or indirect holding exceeds 1 per cent. of the Bank's capital or they were appointed to represent shareholders holding that percentage of the capital.

<sup>(\*\*)</sup> Representative: Since 7 April 2014, José Ramón Rodríguez has replaced Vicente Pérez Jaime as the individual representative.

The table below sets forth the names of the members of the Board of Directors of the Guarantor and their principal activities outside the Guarantor as at the date of this Base Prospectus. As at the date of this Base Prospectus, there were no conflicts of interest in relation to members of the Board of Directors of the Guarantor between any duties owed to the Guarantor and their private interests and other duties.

Name	Company	Position
Aparicio Valls, Francisco.....	Centro Social Universitario Pan de Azúcar, S.A.	Sole Director
	Francisco Aparicio y Compañía, S.R.C.	Sole Director
	Banco Pastor, S.A.	Vice Chairman
	Banco Bx+, S.A.	Director
	Grupo Financiero Bx+, S.A.	Director



<b>Name</b>	<b>Company</b>	<b>Position</b>
	Popular Banca Privada, S.A.	Director
Francisco Gómez Martín.....	Targobank, S.A. Allianz Popular, S.L. Banco Bx+, S.A. Grupo Financiero Bx+, S.A.	Director Director Director Director
Herrando Prat, Luis.....	Instituto de Educación e Investigación, S.A. Sociedad de Promoción y Desarrollo Talde, S.A. Bilbao Equity SIMCAV, S.A. Estudios y Promociones Padros, S.L. Asistencia Clínica Universitaria de Navarra, S.A. Popular Banca Privada, S.A. Aliseda, S.A.	President Director President Sole Director Director President Director
Fradin, Alain.....	Banque Fédérative du Crédit Mutuel Caisse Fédéral du Crédit Mutuel Confederation Nationale du Crédit Mutuel Caisse Centrale du Crédit Mutuel CIC Targobank, S.A. Targo Deutschland Groupe Sofemo Credit Industriel et Commercial  Cofidis Participations Banque Credit Mutuel Île de France Targo Management AG Targobank AG Bischenberg  Cofidis Boreal Euro-Information	Chief Executive Officer Officer Officer Chief Executive Officer Vice Chairman Director Officer President Director Vicepresident Vicepresident Member Senior Management President Director Member Senior Management
Higuera, Roberto.....	Popular de Mediación, S.A. Popular de Factoring, S.A., E.F.C	President President
Molins López-Rodó, Ana María .....	Cementos Molins, S.A.  Inversora Pedralves, S.A. Otinix, S.A. Inmobiliaria Inclar, S.L.	Vice Chairman and Director Director Director Director
Revoredo Delveccio, Helena.....	Prosegur, S.A. Euroforum Escorial S.A. Mediaset España Comunicaciones, S.A. TF Artes Gráficas S.A. Proactinmo, S.L. Gubel, S.L. Hispainver, S.L. Prorevisa, S.L. Agrocinegetica San Huberto, S.L. Romeracapital Sicav S.A.	President President Director Director President President Director Director Director Sole Director Director
Ron, Ángel Carlos.....	—	—
Sindicatura de Accionistas de BPE (rep. Solís, Miguel Ángel de).....	Guelmisa, S.L. Sierra Albaida, S.L.	Sole Director President
Tardío Barutel, Vicente.....	Allianz Compañía de Seguros y Reaseguros, S.A Allianz Popular, S.L. BPI	President and CEO Presidente Director
Unión Europea de Inversiones, S.A. (rep. José Ramón Rodríguez).....	Unión Europea de Inversiones, S.A. Aliseda, S.A. Compañía de Gestión de Servicios, S.L.	President Vicepresidente President
José María Arias Mosquera.....	Banco Pastor, S.A. Fundación Barrié de la Maza	President President

<b>Name</b>	<b>Company</b>	<b>Position</b>
	Asociación Española de Banca	Director
	Asociación para el Progreso de la Dirección	Director
	Patronato Príncipe de Asturias	Director
	Fundación COTEC para la Innovación Tecnológica,	Director
	Asociación Española de Fundaciones	Director
	Fundación Juana de Vega	Director
	Fundación Gaiás Cidade da Cultura	Director
	Consello da Cultura Galega	Director
	Escuelas Populares Gratuitas	Director
	Institución Benéfico Social Padre Rubinos	Director
Fundación Barrié de la Maza .....	—	—
Jorge Oroviogoicoechea Ortega .....	Transportes Boyaca, S.L.	Officer
Antonio del Valle Ruiz .....	Grupo Financiero Ve Por Más, S.A. de C.V.	President
	Teléfonos de México, S.A.B. de C.V.	Director
	AXA Seguros de México, S.A.B. de C.V.	Director

### *Delegated Committee*

The Board of Directors has delegated all of its powers in favour of the Delegated Committee, except for those which cannot be delegated pursuant to the provisions of the Capital Companies Act (Ley de Sociedades de Capital) and Board Regulations (Reglamentos del Consejo).

At the date of this Base Prospectus, the Delegated Committee was composed of the following six directors:

<b>Name</b>	<b>Position</b>
Ángel Ron Güimil.....	Chairman
Francisco Gómez Martín.....	Chief Executive Officer
Luis Herrando Prat de la Riba.....	Member
Roberto Higuera Montejo .....	Member
José María Arias Mosquera.....	Member
Francisco Aparicio Valls.....	Secretary

The resolutions adopted by the Delegated Committee do not require subsequent ratification by a meeting of the Board of Directors, although the Delegated Committee does inform the Board of Directors about the matters dealt with and the decisions adopted in its meetings.

### *Audit and Control Committee*

The Audit and Control Committee is entrusted with the task of assisting the Board of Directors in its functions of overseeing and controlling the Guarantor by means of the evaluation of the Guarantor's auditing system, the verification of the independence of the external auditor and the review of the internal control systems. The role of this committee is fundamentally informative and consultative, although, on an exceptional basis, the Board of Directors may delegate decision-making powers to it.

At the date of this Base Prospectus, the Audit and Control Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Roberto Higuera Montejo .....	Chairman
José María Arias Mosquera.....	Member
Jorge Oroviogoicoechea Ortega.....	Member

### *Risk Commission*

The Risk Commission supervises the market and operational credit risks affecting the Guarantor's activity and evaluates continuously the overall risk assumed, its industry and geographic diversification and the hedges that are deemed advisable to preserve the solvency level considered to be necessary, proposing the most adequate policies to obtain these objectives.

At the date of this Base Prospectus, the Risk Commission was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Jorge Oroviogioicoechea Ortega.....	Chairman
Luis Herrando Prat de la Riba.....	Member
José Ramón Rodríguez García (Representative of the Unión Europea de Inversiones, S.A.).....	Member

#### *Risk Committee*

The Risk Committee is composed of four executive members of the Group who are also members of the Senior Management of the Group. This Committee is entrusted with the task of analyzing and approving transactions in amounts exceeding the maximum limits imposed by the Board of Directors.

At the date of this Base Prospectus, the Risk Committee was composed of the following four members:

<b>Name</b>	<b>Position</b>
José María Sagardoy.....	Chairman
Antonio Pujol.....	Member
José Ramón Alonso .....	Member
Francisco Sancha .....	Member

#### *Appointments Committee*

In 1998 the Board of Directors decided to create the Appointments, Corporate Governance and Conflicts of Interest Committee, which in 2003 was attributed tasks with respect to the compensation policy for the Board and the Executive Management of the Group and, in 2005, the determination of policy, control and reporting in regard to Corporate Social Responsibility.

In October 2014, the Committee was divided in two independent Committees: the Appointments Committee and the Remuneration Committee.

The role of the Committee is fundamentally informative and consultative, although, on an exceptional basis, the Board may delegate decision-making powers to it. Its principal duty is to assist the Board in its functions of the appointment, re-election, termination and compensation of the Directors and of the Senior Management of the Group, to ensure that the Directors receive all of the necessary information for the proper discharge of their duties, to evaluate the Board and its Committees, as well as to oversee observance of the rules of governance of the Bank, reviewing compliance with its rules, recommendations and principles on a regular basis.

At the date of this Base Prospectus, the Appointments Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Luis Herrando Prat de la Riba.....	Chairman
Ana María Molins López-Rodó .....	Member
Jorge Oroviogioicoechea Ortega.....	Member

#### *Remuneration Committee*

In 1998 the Board of Directors decided to create the Appointments, Corporate Governance and Conflicts of Interest Committee, which in 2003 was attributed tasks with respect to the compensation policy for the Board and the Executive Management of the Group and, in 2005, the determination of policy, control and reporting in regard to Corporate Social Responsibility.

In October 2014, the Committee was divided in two independent Committees: the Appointments Committee and the Remuneration Committee.

The role of the Committee is fundamentally informative and consultative, although, on an exceptional basis, the Board may delegate decision-making powers to it. Its principal duty is to assist the Board in its functions of implementing and overseeing the compensation systems of the Directors and of the Senior Management of the Group.

At the date of this Base Prospectus, the Remuneration Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Luis Herrando Prat de la Riba.....	Chairman
Ana María Molins López-Rodó .....	Member
Jorge Oroviogoicochea Ortega.....	Member

### *International Advisory Board*

The International Advisory Board works together with the Board of Directors in the design, development and implementation of the international business strategy, supporting new ideas, contacts and business opportunities. The International Advisory Board is organically and functionally subordinated to the Board of Directors.

<b>Name</b>	<b>Position</b>
Jacobo González-Robatto .....	Chairman
Jean Olof Richard Carendi.....	Member
Reyes Calderón Cuadrado.....	Member
Tomás García Madrid .....	Member

### *Senior Management*

The following table specifies the senior management of the Guarantor.

<b>Name</b>	<b>Position</b>
Francisco Gómez Martín.....	Chief Executive Officer
Jesús Arellano Escobar .....	Chief Control and Audit Officer
Fernando Rodríguez Baquero .....	Technical Resources, Chief Operations Officer
Rafael de Mena Arenas.....	Affiliated Companies
Alberto Muñoz Fernández .....	Chairman's Office
Carlos Balado .....	Head of Communications, Banking and Corporate Relations
Francisco Sancha Bermejo.....	Chief Financial Officer
Miguel Ángel Moral .....	General Secretary
Javier Moreno .....	Financial Controller
Antonio Pujol.....	Head of Retail Banking
José Ramón Alonso .....	Commercial Banking Management
José María Sagardoy.....	Chief Risk Officer
Susana de Medrano.....	Secretary

As provided by article 26 of the by-laws, the general management of the Guarantor is the technical and executive governing body.

At present, the Guarantor's Senior Management Committee is formed by Mr. Francisco Gómez Martín, Mr. Jesús Arellano Escobar, Mr. Carlos Balado, Mr. Rafael de Mena, Mr. Fernando Rodríguez Baquero, Mr. Miguel Ángel Moral, Mr. Francisco Sancha Bermejo, Mr. Alberto Muñoz Fernández, Mr. José María Sagardoy, Mr. Antonio Pujol, Mr. José Ramón Alonso, Mr. Javier Moreno and Ms. Susana de Medrano.

The principal activities of each member of senior management outside of the Guarantor are set out in the table below:

<b>Name</b>	<b>Company</b>	<b>Title</b>
Jesús Arellano Escobar .....	Sociedad Conjunta para la Emisión and Gestión de Medios de Pago EFC, S.A. (IBERIA CARDS)	Director
Francisco Gómez Martín.....	Allianz Popular, S.L.	Director
	Targobank, S.A.	Director
	Banco Bx+, S.A.	Director
	Grupo Financiero Bx+, S.A.	Director
Miguel Ángel Moral .....	—	—
Rafael S. de Mena.....	—	—
Alberto Muñoz Fernández .....	—	—
Fernando Rodríguez Baquero .....	Redsys Servicios de Procesamiento, S.L.	Director
Carlos Balado .....	—	—
Francisco Sancha Bermejo.....	—	—
Javier Moreno .....	—	—
Antonio Pujol.....	—	—

Name	Company	Title
José Ramón Alonso .....	Popular de Factoring, S.A., E.F.C.	Director
	Allianz Popular, S.L.	Director
	Banco Popular Portugal, S.A.	Director
	Popular Gestao de Activos	Director
	Eurovida Compañía Seguros Portugal	Director
	Popular Seguros Compañía Seguros Portugal	Director
José María Sagardoy .....	Targobank, S.A.	Director
Susana de Medrano .....	Targobank, S.A.	Director

There are no conflicts of interest, or potential conflicts of interest, between any duties toward the Guarantor of any of the persons referred to above and their respective private interests and/or any other duties.

The business address of each member of the Board of Directors and the other members of the Guarantor's management mentioned above is calle Velázquez nº 34, 28001 Madrid, Spain.

#### *Deferred and contingent bonuses for the Board of Directors' Compensation*

No member of the Guarantor's Board of Directors has received any remuneration by membership of the Board of Directors in other companies of the Group for the year ended 31 December 2013.

The non-executive members of the Guarantor's Board of Directors do not receive remuneration. The amounts received (€1.091 thousand) by Mr. Arias Mosquera, vice-president of the Board of Directors, derive exclusively from his previous position as Executive President of Banco Pastor and these amounts were approved and provisioned for by Banco Pastor.

At the Ordinary General Shareholders' Meeting held on 10 June 2013, the shareholders approved a new compensation scheme for the executive personnel of the Guarantor and any other person whose professional activity has a significant impact on the Guarantor's risk profile or who perform control functions. The Articles of Association of the Guarantor were amended at the meeting to include a new article 17 that states that the policy of director's remuneration shall adjust to the Guarantor's traditional policy of not remunerating performance of office of a member of the Board of Directors.

The foregoing article allows for the receipt of fees or salaries by a Board member who also discharges professional or labour services for any other executive functions, consultancy or representation, other than the supervision, deliberation and passage of resolutions inherent to their status as Directors.

In addition, Executive Directors may be remunerated fully or in part by the delivery of shares or of rights of option thereto or by remuneration referenced to the share value, provided that application of any of these remuneration procedures is first agreed on at the Shareholders General Meeting. The Shareholders General Meeting shall determine the number of shares to be delivered, the price for the exercise of the rights of options, the value of the shares taken as reference, and how long the remuneration method shall last.

Each year the Board of Directors shall table a report with the Annual General Shareholders Meeting on the Board of Directors' remuneration policy, for a vote on a consultative basis. Directors with no professional or labour link with the Guarantor shall receive no remuneration, except for collective insurance and third-party liability related to their action as directors.

The Directors have not received any other remuneration from the Guarantor or from any company in the Group other than that referred to above.

In line with the adjustment of the Guarantor's remuneration policy to Directive 2010/76/EU of 24 November 2010, the Executive Directors' remuneration for 2013 comprises of a fixed and a variable component. Calculation of variable remuneration involves the necessary technical criteria and precautions to ensure that the amount corresponds with the individual professional commitment of its recipients, the particular business unit and the Guarantor as a whole, in order to reach objectives that are measurable and aligned with the shareholders' interests and with prudent risk management. The calculation method tries to restrict variable remuneration deriving simply from the general evolution of financial sector markets or other similar circumstances.

The deferred, conditioned, variable remuneration method allows for the Board of Directors, on the recommendation of the Appointments, Remuneration, Corporate Government and Conflict of Interest Committee, to reduce or prevent collection of deferred remuneration in the following circumstances: i) insufficient financial commitment by the Guarantor; ii) breach by the beneficiary of the internal codes and rules he/she is subject to; iii) the material reformulation of the Guarantor's financial statements (unless it is due to modification of the applicable accounting rules); and iv) significant variations in the Group's capital and the qualitative valuation of its risks.

Shares paid as remuneration are not disposable for a year.

In 2013, the pension commitments of Banco Pastor to Mr. Arias, which were assumed by the Guarantor upon the completion of the merger with Banco Pastor, totalled €3,509 thousand, and the vested rights and mathematical reserves relating to the retirement pension totalled €13,883 thousand.

The total cost to the Guarantor of the contributions to the retirement pensions of Mr. Ron, Mr. Gómez and Mr. Aparicio for the year ended 31 December 2013 amounted to €2,316 thousand of which contributions for Mr. Ron amounted to €372 thousand, contributions for Mr. Gómez amounted to €1,505 thousand and contributions for Mr. Aparicio amounted to €438 thousand, compared to €410 thousand in 2012.

The vested rights and mathematical reserves relating to the pensions of the current directors, Mr. Ron, Mr. Gómez, Mr. Aparicio, Mr. Higuera and Mr. Arias were €6,602 thousand, €4,077 thousand, €2,913 thousand, €9,742 thousand and €4,278 thousand, respectively, representing an aggregate total of €37,612 thousand, plus €35,761 thousand pertaining to past Directors, amounting to a total of €73,373 thousand at 31 December 2013.

#### *Employees*

The number of employees of the Group (including Banco Pastor) at 30 September 2014 was 15,520, compared to 16,207 at 31 December 2013.

At December 2013, the number of employees in Spain was 14,179, of which 8,939 were men and 5,240 women. Abroad, the number of employees was 1,848, of which 1,122 were men and 726 women.

At 30 September 2014, the number of employees in Spain was 13,668, of which 8,601 were men and 5,067 women. Abroad, the number of employees was 1,852, of which 1,120 were men and 732 women.

#### *Major Shareholders*

The Guarantor is not aware of the existence of any individual or body corporate exercising, or who could exercise, directly or indirectly, control over it, nor is the Guarantor aware of the existence of any agreement which could lead to a change of control at a subsequent date.

#### *Financial Information Concerning the Guarantor's Assets and Liabilities, Financial Position and Profits and Losses*

The audited consolidated annual accounts of the Guarantor for the financial years ended 31 December 2013 (which includes 31 December 2012 financial information for comparative purposes) and for the financial year ended 31 December 2012 (which includes 31 December 2011 financial information for comparative purposes) and the audited consolidated interim condensed financial statements as of and for the nine months ended 30 September 2014 prepared in accordance with IFRS-EU, have been incorporated by reference in this Base Prospectus.

The above mentioned consolidated annual accounts were audited by PricewaterhouseCoopers Auditores, S.L., the auditors of the Guarantor (registered in the Official Registry of Auditors of Accounts (Registro Oficial de Auditores de Cuentas) under number SO.242). The auditor is a member of the following professional bodies in Spain (i) Instituto de Censores Jurados de Cuentas de España and (ii) Registro Oficial de Auditores de Cuentas. The auditors have not resigned, been removed or re-appointed during the period covered by the historical financial information contained herein.

No other information in this Base Prospectus has been audited by PricewaterhouseCoopers Auditores, S.L.

No financial data in this Base Prospectus has been extracted from a source other than the 31 December 2013 financial statements, 31 December 2012 financial statements or the 30 September 2014 condensed financial statements.

### Capital Adequacy

The following table sets forth the details of risk weighted assets, capital and ratios of the Group:

	<b>At 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>(thousands of euro except percentages)</i>	
<b>Total EBA core capital</b> .....	<b>9,024,864</b>	<b>8,933,933</b>
EBA Core capital (%).....	11.21	10.06
<b>Total Tier I capital</b> .....	<b>9,656,504</b>	<b>9,099,459</b>
Tier I ratio (%).....	11.99	10.25
<b>BIS eligible capital</b> .....	<b>9,873,584</b>	<b>9,788,006</b>
BIS ratio (%) .....	12.26	11.03
Memorandum items.....		
Total BIS risk-weighted assets <sup>(1)</sup> .....	80,526,024	88,756,823

Notes:

(2) Includes credit risk, exchange rate risk, market risk and operational risk.

### Documents on display

For the period of 14 days after the date of this Base Prospectus and for so long as any Notes shall be outstanding and throughout the life of the Programme, physical or electronic copies and, where appropriate, English translations of the following documents may be inspected (in the case of (f) and (g) below obtainable from the Paying Agents) during normal business hours at the specified offices of the Paying Agents and at the registered office of the Guarantor, namely:

- (a) the constitutional documents of the Guarantor;
- (b) the current listing particulars in relation to the Programme (including this Base Prospectus), together with any amendments or supplements thereto, including any supplementary listing particulars and any document incorporated therein by reference;
- (c) the Issuing and Paying Agency Agreement and all amendments thereto and restatements thereof;
- (d) the Deed of Covenant;

- (e) the Dealer Agreement and all amendments thereto and restatements thereof;
- (f) the most recent publicly available audited consolidated annual accounts and interim financial statements (including the notes to the accounts setting out the comments and detailed explanations made by accountant officials of the Guarantor and audited by PricewaterhouseCoopers Auditores, S.L. in respect of the figures set out in such accounts) and the most recent publicly available consolidated interim financial statements, of the Guarantor beginning with the 2013 Third-Quarter Financial Information, the June 2013 Interim Financial Statements and the 2012 and 2011 Financial Statements; and
- (g) any Final Terms.



## PLAN OF DISTRIBUTION

Subject to the terms and conditions contained in a dealer agreement dated 22 December 2014 (the "**Dealer Agreement**" as amended, supplemented or restated from time to time) between the Issuer, the Guarantor, the Arranger and the Dealers, the Notes will be offered on a continuous basis by the Issuer to the Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to other dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Dealers. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

Each of the Issuer failing whom, the Guarantor, has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the Issuer or, in relation to itself and the Issuer only, by any Dealer, at any time on giving not less than ten business days' notice.

### 1. **United States of America**

1.1 The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold any Notes, and will offer and sell any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Tranche. Each Dealer also agreed, and each further Dealer appointed under the Programme will be required to agree that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this subclause 1.1 have the meanings given to them by Regulation S.

1.2 Each Dealer has represented and agreed, and each further Dealer appointed under the Dealer Agreement will be required to agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

1.3 In addition in respect of Notes where TEFRA D is specified in the applicable Final Terms:

- (a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the **D Rules**), each Dealer (i) has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not offered or sold, and has agreed that during the restricted period it will not offer or sell, Notes in bearer form to a person

who is within the United States or its possessions or to a United States person, and (ii) has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not delivered and has agreed that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

- (b) each Dealer has represented, and each further Dealer appointed under the Programme will be required to represent that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if it is a United States person, each Dealer has represented, and each further Dealer will be required to represent, that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6);
- (d) with respect to each affiliate that acquires Notes in bearer form from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has repeated and confirmed, and each further Dealer appointed under the Programme will be required to repeat and confirm, the representations and agreements contained in subclauses 1.3(a), 1.3(b), 1.3(c) and 1.3(d) on such affiliate's behalf; and
- (e) each Dealer obtained, and each further Dealer appointed under the Programme will be required to obtain, for the benefit of the Issuer the representations and agreements contained in subclauses 1.3(a), 1.3(b), 1.3(c), 1.3(d), and 1.3(e) from any person other than its affiliate with whom it enters into a written contract for the offer or sale during the restricted period of Notes in bearer form.

Terms used in this subclause 1.3 have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules as in effect from 18 March 2012.

- 1.4 In respect of Notes where TEFRA C is specified in the applicable Final Terms, such Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, in connection with the original issuance of such Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Notes.

## 2. **United Kingdom**

In relation to each Tranche of Notes, the Dealers subscribing for or purchasing such Notes have represented to and agreed with, or will represent to and agree with, the Issuer, the Guarantor and each other such Dealer (if any) that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

- (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
  - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;
- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
  - (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### 3. The Kingdom of Spain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold in Spain other than by institutions authorised under the Securities Market Law 24/1988 of 28 July 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) as amended (the "**Securities Market Law**") and related legislation, and Royal Decree 217/2008 of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el Régimen Jurídico de las empresas de servicios de inversión y de las demás entidades que prestan servicios de inversión*), to provide investment services in Spain, and in compliance with the provisions of the Securities Market Law and any other applicable legislation, **provided that** offers of the Notes shall not be directed specifically at or made to investors located in Spain.

### 4. Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation.

Each of the Dealers has represented and agreed, and each further Dealer will be required to represent and agree, that any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and any other applicable laws and regulations of the Republic of Italy.

Any such offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Legislative Decree No. 5 of 24 February 1998 as amended from time to time, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), in each case as amended, and any other applicable laws and regulations; and
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy.

5. **France**

Each of the Dealers has represented and agreed, and each further Dealer will be required to represent and agree that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

6. **General**

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, to the Issuer and Guarantor that it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any Drawdown Prospectus or any Final Terms or any related offering material, in all cases at its own expense.

## TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS

*The information provided below does not purport to be a complete summary of tax law and practice currently applicable and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Other than in accordance with Condition 9, neither the Issuer nor the Guarantor assume responsibility for withholding taxes. Prospective investors who are in any doubts as to their position should consult with their own professional advisers.*

*On 28 November 2014, the Spanish Official Gazette has published different Laws that contain amendments to the Personal Income Tax Law and Non-Resident Income Tax Law and a new Corporate Income Tax Law. The new Laws will enter into force on the tax periods starting as of 1 January 2015. When mentioning the tax treatment included in this summary reference will also be made to "the tax reform".*

### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. On 18 March 2014, the Luxembourg government submitted to the Luxembourg Parliament draft Bill No. 6668 on taxation of savings income putting an end to the current withholding tax regime as from 1 January 2015 and implementing the automatic exchange of information as from that date. This draft Bill is in line with the announcement of the Luxembourg government dated 10 April 2013.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

### **The proposed Financial Transactions Tax ("FTT")**

The European Commission has published a 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**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

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

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. 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 Notes are advised to seek their own professional advice in relation to the FTT.

## **The Kingdom of Spain**

### ***Introduction***

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Base Prospectus:

- (a) of general application, Additional Provision One of Law 10/2014 and Royal Decree 1065/2007 establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules as amended by Royal Decree 1145/2011 of 29 July, and Royal Decree-Law 20/2011, of December 30, on urgent measures on budget, tax and finance matters for the correction of the public deficit;
- (b) for individuals with tax residency in Spain who are personal income tax ("**Personal Income Tax**") tax payers, Law 35/2006, of 28 November 2006 on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Residents Income Tax Law and Wealth Tax Law as amended by Law 26/2014, of 27 November (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March 2007 promulgating the Personal Income Tax Regulations, along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008 and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporate income tax ("**Corporate Income Tax**") taxpayers, Royal Legislative Decree 4/2004, of 5 March 2004 promulgating the Consolidated Text of the Corporate Income Tax Law, Law 27/2014, of 27 November, of Corporate Income Tax applicable on the tax periods starting as of 1 January 2015 and Royal Decree 1777/2004, of 30 July 2004 promulgating the Corporate Income Tax Regulations (the "**Corporate Income Tax Regulations**"); and
- (d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax ("**Non-Resident Income Tax**") taxpayers, Royal Legislative Decree 5/2004, of 5 March 2004 promulgating the Consolidated Text of the Non-Resident Income Tax Law as amended by Law 26/2014, of 27 November, and Royal Decree 1776/2004, of 30 July 2004 promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008 and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of a beneficial interest in the Notes (each, a "**Beneficial Owner**"), the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September 1993, and exempt from value added tax, in accordance with Law 37/1992, of 28 December 1992 regulating such tax.

#### **1. Individuals with Tax Residency in Spain**

##### **1.1 Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)**

Payments of income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance

with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently at the rate of 21 per cent. on the first €6,000, 25 per cent. on the following €18,000 and 27 per cent. for any amount in excess of €24,000.

According to the tax reform, as from 1 January 2016, each investor's savings income tax base will be taxed at 19 per cent for taxable income up to EUR 6,000; 21 per cent. for taxable income between EUR 6,000.01 to EUR 50,000 and 23 per cent. for taxable income in excess of EUR 50,000. During tax period 2015 each investor's savings income tax base will be taxed at 20 per cent. for taxable income up to EUR 6,000; 22 per cent. for taxable income between EUR 6,000.01 to EUR 50,000 and 24 per cent. for taxable income in excess of EUR 50,000.

According to Section 44.5 of Royal Decree 1065/2007, of 27 July, the Issuer will make interest payments to individual holders who are resident for tax purposes in Spain without withholding **provided that** the relevant information about the Notes is submitted. In addition, income obtained upon transfer, redemption or exchange of the Notes may also be paid without withholding.

However, in the case of Notes held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the current rate of 21 per cent. (20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016, according to the tax reform) which will be made by the depositary or custodian.

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

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*). Therefore, they should take into account the value of the Notes which they hold as at 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules.

### 2. **LEGAL ENTITIES WITH TAX RESIDENCY IN SPAIN**

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

Payments of income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal entities with tax residency in Spain for Corporate Income Tax purposes in accordance with the rules for Corporate Income Tax and subject to the general rate of 30 per cent.. According to the tax reform, the general rate will be reduced to 28 per cent. for the tax period beginning on 1 January 2015 and 25 per cent. for the tax period beginning as from 1 January 2016 and onwards.

In accordance with Section 44.5 of Royal Decree 1065/2007, of 27 July, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold on interest payments to Spanish CIT taxpayers **provided that** the relevant information about the Notes is submitted. However, in the case of Notes held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the applicable rate of 21 per cent. (20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016, according to the tax reform) which will be made by the depositary or custodian, if the Notes do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

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

Spanish resident legal entities are not subject to Wealth Tax.

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

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Notes in their taxable income for Spanish Corporate Income Tax purposes.

## 3. **Individuals and Legal Entities with no Tax Residency in Spain**

### 3.1 **Non-Resident Income Tax (*Impuesto sobre la Renta de No Residentes*)**

#### (a) *Non-Spanish resident investors acting through a permanent establishment in Spain*

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are the same as those for Spanish Corporate Income Tax taxpayers.

#### (b) *Non-Spanish resident investors not acting through a permanent establishment in Spain*

Payments of income deriving from the transfer, redemption or repayment of the Notes obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from public debt.

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

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed EUR700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Non-Spanish resident legal entities are not subject to Wealth Tax.

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

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with the Spanish legislation applicable in the relevant autonomous region (*Comunidad Autónoma*).

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

## 4. **Tax Rules for payments made by Guarantor**

Payments which may be made by the Guarantor to holders, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.



## 5. Information about the Notes in Connection with Payments

The Issuer and the Guarantor are currently required by Spanish law to file an annual return with the Spanish tax authorities in which they report on certain information relating to the Notes. In accordance with Section 44 of Royal Decree 1065/2007, for the purpose of preparing the annual return referred to above, certain information with respect to the Notes must be submitted to the Issuer and the Guarantor at the time of each payment.

Such information would be the following:

- (a) Identification of the Notes in respect of which the relevant payment is made;
- (b) Date on which relevant redemption is made;
- (c) the total amount of the relevant redemption; and
- (d) the amount of the relevant payment and to each entity that manages a clearing and settlement system for securities situated outside Spain.

In particular, the Fiscal Agent must certify the information above about the Notes by means of a certificate the form of which is attached as Annex I of this Base Prospectus. In light of the above, the Issuer and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes.

In light of the above, the Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes. If, despite these procedures, the relevant information is not received by the Issuer and the Guarantor, the Issuer may be required to withhold at the applicable rate of 21 per cent. (20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016, according to the tax reform) from any payment in respect of the relevant Notes as to which the required information has not been provided. In that event the Issuer/Guarantor will pay such additional amounts as will result in receipt by the Noteholders of such amount as would have been received by them had no such withholding been required.

The procedures for providing documentation referred to in this section are set out in detail in the amended and restated fiscal agency agreement dated 22 December 2014 (the "**Fiscal Agency Agreement**") which may be inspected during normal business hours at the specified office of the Fiscal Agent. In particular, if the Fiscal Agent does not act as common depository, the procedures described in this section will be modified in the manner described in the Fiscal Agency Agreement.

*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.*

## 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 (...)<sup>(1)</sup>, en nombre y representación de (entidad declarante), con número de identificación fiscal (...)<sup>(1)</sup> y domicilio en (...) en calidad de (marcar la letra que proceda):**

Mr. (name), with tax identification number (...)<sup>(1)</sup>, in the name and on behalf of (entity), with tax identification number (...)<sup>(1)</sup> 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) Fiscal Agent appointed by the Issuer.

**Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:**

Makes the following statement, according to its own records:

- 1. En relación con los apartados 3 y 4 del artículo 44:**
  - 1. In relation to paragraphs 3 and 4 of Article 44:
    - 1.1 Identificación de los valores .....**
      - 1.1 Identification of the securities.....
    - 1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**
      - 1.2 Income payment date (or refund if the securities are issued at discount or are segregated)
    - 1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).....**

- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated).....
- 1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora .....**
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).**
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).
- 2. En relación con el apartado 5 del artículo 44.**
2. In relation to paragraph 5 of Article 44.
- 2.1 Identificación de los valores .....**
- 2.1 Identification of the securitites .....
- 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 ....

<sup>(1)</sup> 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

<sup>(1)</sup> 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.

## GENERAL INFORMATION

1. This Base Prospectus has been approved by the Central Bank as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the notes to be admitted to the Official List and trading on its regulated market.

However, Notes may be issued pursuant to the Programme which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

2. Each of the Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in Ireland and the Kingdom of Spain in connection with the establishment of the Programme and the issue and performance of the Notes and the guarantees relating to them. The establishment of the Programme was authorised by the resolution of the shareholders of the Issuer passed on 17 April 2007, and the establishment of the Programme and the giving of the guarantees relating to the Notes by the Guarantor was authorised by a resolution of the Delegated Committee of the Guarantor passed on 18 April 2007. The update of the Programme was authorised by the shareholders of the Issuer passed on 24 November 2014, by the board of directors of the Issuer passed on 24 November 2014 and by the Delegated Committee of the Guarantor passed on 2 December 2014.
3. Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "**Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code**".
4. There are no pending or threatened governmental, legal or arbitration actions, suits or proceedings against or affecting the Issuer or the Guarantor or any of the Guarantor's subsidiaries, which may have, or have had during the 12 months prior to the date hereof, individually or in the aggregate, a significant effect on the financial position of the Issuer or the Guarantor and, to the best knowledge of the Issuer or the Guarantor, no such actions, suits or proceedings are threatened or contemplated.
5. The Issuer has no significant changes in financial and trading position and no material adverse change in prospects since 31 December 2013. The Guarantor and its subsidiaries, taken as a whole, have no significant changes in financial position since 30 June 2014 and no material adverse change in prospects since 31 December 2013.
6. Notes will be accepted for clearance through the Euroclear and Clearstream systems. The Common Code and the International Securities Identification Number (ISIN) will be set out in the relevant Final Terms.
7. For so long as the Programme remains in effect or any Notes remain outstanding, the following documents will be available for inspection and (in the case of the items listed under (vii), (viii) and (ix) below) obtainable, during usual business hours on any weekday (Saturdays and public holidays excepted) in physical form, at the registered offices of the Issuer, the Guarantor, the Fiscal Agent and each of the Paying Agents:
  - (i) amended and restated the Fiscal Agency Agreement;
  - (ii) the Programme Manual (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);
  - (iii) the Dealer Agreement;
  - (iv) the Deed of Covenant;
  - (v) the Deed of Guarantee;

- (vi) the *Estatutos* (together with English translations) of each of the Issuer and the Guarantor;
  - (vii) each of the documents referred to in "*Documents Incorporated by Reference*";
  - (viii) any Final Terms relating to Notes which are listed on the Irish Stock Exchange or which are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system;
  - (ix) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus; and
  - (x) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.
8. The consolidated annual accounts of the Guarantor for the years ended 31 December 2013 and 2012 and the consolidated half-yearly financial report of the Guarantor for the six month period ended 30 June 2014 prepared in accordance with IFRS, were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' reports were unqualified.
  9. The non-consolidated annual accounts of the Issuer for the years ended 31 December 2013 and 2012 prepared in accordance with Spanish GAAP were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' report was unqualified.
  10. The unaudited interim consolidated quarterly report of the Guarantor for the nine month period ended 30 September 2014 prepared in accordance with IFRS has not been subject to an audit or a limited review.
  11. Any websites mentioned in this Base Prospectus shall not form part of this Base Prospectus.
  12. Clifford Chance, S.L. have acted as legal advisers to the Arranger and Dealers as to Spanish law and English law in relation to the Programme.
  13. There are no material contracts which could result in any member of the Group being under an obligation that is material to the Issuer's ability to meet its obligations to holders of Notes.

**THE ISSUER**

**BPE Financiaciones, S.A.**  
José Ortega y Gasset, 29  
28006 Madrid  
Spain

**THE GUARANTOR**

**Banco Popular Español, S.A.**  
Velázquez, 34  
28001 Madrid  
Spain

**ARRANGER AND DEALER**

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

**DEALERS**

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Ciudad BBVA – Edificio Asia  
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Spain

**Banco Popular Español, S.A.**  
Velázquez, 34  
28001 Madrid  
Spain

**Banco Santander, S.A.**  
Gran Vía de Hortaleza, 3  
Edificio Pedreña  
28033 Madrid  
Spain

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

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Commerzbank Aktiengesellschaft**  
Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt Am Main  
Germany

**Crédit Agricole Corporate and Investment Bank**  
9 quai du Président Paul Doumer  
92920 Paris La Défense Cedex  
France

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London, E14 5HQ  
United Kingdom

**J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Morgan Stanley & Co. International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Natixis**

30 avenue Pierre Mendès-France  
75013 Paris  
France

**Nomura International plc**

1 Angel Lane  
London EC4R 3AB  
United Kingdom

**Société Générale**

29 boulevard Haussmann  
75009 Paris  
France

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**FISCAL AGENT, PAYING AGENT, CALCULATION AGENT AND TRANSFER AGENT**

**The Bank of New York Mellon, London Branch**

One Canada Square  
Canary Wharf  
London E14 5AL  
United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**

Vertigo Building  
Polaris-2-4 rue Eugène Ruppert  
L-2453 Luxembourg

**IRISH LISTING AGENT**

**The Bank of New York Mellon SA/NV, Dublin Branch**

Hanover Building  
Windmill Lane  
Dublin 2  
Ireland

**AUDITORS TO THE ISSUER AND TO THE GUARANTOR**

**PricewaterhouseCoopers Auditores, S.L.**

Paseo de la Castellana, 259-B  
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**LEGAL ADVISERS**

*To the Issuer and the Guarantor as to Spanish law*  
Laura Coto Obaya and Concepción Doz Zubeldia,  
Legal Advisers

**Banco Popular Español, S.A.**

Velázquez, 34  
28001 Madrid  
Spain

*To the Arranger and the Dealers as to Spanish law  
and English law*

**Clifford Chance, S.L.**

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