



BANCO DE SABADELL, S.A.

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

€5,000,000,000

Euro Medium Term Note Programme

This base prospectus (the "**Base Prospectus**") has been approved by the Central Bank of Ireland (the "**CBI**"), as competent authority for the purposes of Directive 2003/71/EC, as amended, (the "**Prospectus Directive**") and constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. This Base Prospectus has been prepared in accordance with Annexes XI, XIII and XX of the Commission Regulation (EC) No. 809/2004. The CBI only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (the "**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**ISE**") for the notes (the "**Notes**") issued under the Banco de Sabadell, S.A. €5,000,000,000 Euro Medium Term Note Programme (the "**Programme**") during the 12 months from the date of this Base Prospectus by Banco de Sabadell, S.A. ("**Banco Sabadell**", the "**Issuer**" or the "**Bank**") to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC ("**MiFID**") and/or which are to be offered to the public in any member state of the European Economic Area. The Main Securities Market is a regulated market for the purposes of MiFID.

The Programme also permits Notes to be issued on the basis that they are admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

At the date of this Base Prospectus, the Issuer's long term rating is BB+ with a Stable Outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") Ba1 with a Stable Outlook by Moody's Investors Service Limited ("**Moody's**") and BBB (high) with a Stable Outlook by DBRS Ratings Ltd. ("**DBRS**") and its current short-term rating is B by S&P, NP by Moody's and R-1 (low) with a Stable Outlook by DBRS.

Notes issued under the Programme may be unrated or may be rated by S&P, Moody's and/or DBRS. As of the date of this Base Prospectus, each of Moody's, S&P and DBRS is established in the EEA and is registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**"). Where a Series of Notes is rated, such rating will be disclosed in the relevant Final Terms or the relevant Drawdown Prospectus. Whether or not a rating in relation to any Series of Notes will be treated as having been issued by a credit rating agency established in the EEA and registered under the CRA Regulation will be disclosed in the relevant Final Terms or the relevant Drawdown Prospectus.

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

Investing in Notes issued under the Programme involves certain risks that may affect the abilities of the Issuer to fulfil its obligations under the Notes. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Base Prospectus, before deciding to invest in the Notes issued under the Programme.

Arranger

DEUTSCHE BANK

Dealers

BOFA MERRILL LYNCH

DEUTSCHE BANK

NATIXIS

UBS INVESTMENT BANK

COMMERZBANK

GOLDMAN SACHS INTERNATIONAL

**SOCIÉTÉ GÉNÉRALE CORPORATE &
INVESTMENT BANKING**

This Base Prospectus is dated 31 March 2016.

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IMPORTANT NOTICES

Responsibility for this Base Prospectus

The Issuer accepts responsibility for the information contained in this Base Prospectus and any Final Terms or Drawdown Prospectus (as defined below) and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by a document specific to such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "*Final Terms and Drawdown Prospectuses*" below.

Other relevant information

This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers referred to in "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale 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) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Unauthorised information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Restrictions on distribution

The distribution of this Base Prospectus and any Final Terms or Drawdown Prospectus, as the case may be, and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms or Drawdown Prospectus, as the case may be, comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms or Drawdown Prospectus, as the case may be, and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and 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.

Neither this Base Prospectus nor any Final Terms or Drawdown Prospectus, as the case may be, constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms or Drawdown Prospectus, as the case may be, should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms or Drawdown Prospectus, as the case may be, shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

Programme limit

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 "*Subscription and Sale*".

Certain definitions

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.\$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, and references to "**EUR**" or "**euro**" or "**€**" 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.

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

Ratings

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation or (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

Stabilisation

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 market price of the Notes

at a level higher than that which might otherwise prevail. However, 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 after the date on which adequate public disclosure of the 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.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements that reflect the Issuer's intentions, beliefs or current expectations and projections about its future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, trends and the market in which it operates. The Issuer has tried to identify these and other forward-looking statements by using the words "may", "could", "will", "would", "should", "expect", "intend", "estimate", "anticipate", "guidance", "project", "future", "potential", "believe", "seek", "plan", "aim", "expect", "objective", "goal", "project", "strategy", "target", "continue" and similar expressions or their negatives. These forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business and the environment in which it expects to operate in the future. Forward-looking statements may be found in the sections of this Base Prospectus entitled "Risk Factors" and "Description of the Issuer" and elsewhere in this Base Prospectus.

The forward-looking events described in this Base Prospectus may not occur. Additional risks that the Issuer may currently deem immaterial or that are not presently known to the Issuer could also cause the forward-looking events discussed in this Base Prospectus not to occur. These forward-looking statements speak only as of the date on which they are made. Except as otherwise required by applicable securities law and regulations and by any applicable stock exchange regulations, the Issuer undertakes no obligation to update publicly or revise publicly any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Base Prospectus. Given the uncertainty inherent in forward-looking statements, the Issuer cautions prospective investors not to place undue reliance on these statements.

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 industry in which each it 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 industry in which it operates and the Notes summarised in the section of this Base Prospectus headed "Key features of the Programme" are the risks that the Issuer believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Notes. However, as the risks which the Issuer faces 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 that are not currently known to the Issuer 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, 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.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

Macroeconomic Risks

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

Global economic conditions deteriorated significantly between 2007 and 2009 and Spain fell into a recession from which it has only recently begun to recover. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have been runs on deposits at several financial institutions, numerous financial institutions had to seek additional capital, including obtaining assistance from governments and many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions). Over this same period, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates.

The crisis in worldwide financial and credit markets led to a global economic slowdown, with many economies around the world showing significant signs of weakness or slow growth. Although in Europe there has been a significant reduction in risk premiums since the second half of 2012 and economic growth for the Eurozone as of whole has been positive since the second quarter of 2013, growing by 1.5 per cent. in 2015, the possibility of future deterioration of the European economy as a whole or for the individual countries, remains a risk. Any such deterioration could adversely affect the cost and availability of funding for Spanish and European banks, including the Bank and its Group, and the quality of its loan portfolio, and require the Group to take impairments on its exposures to the sovereign debt of one or more countries in the Eurozone or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

Furthermore, other factors or events may affect the Spanish, British, European and global economic conditions, such as the exit of countries from the Eurozone, such as Greece and the United Kingdom (Brexit), a sharp slowdown in China, a negative market reaction to (stronger than expected) interest rate increases by the United States Federal Reserve, heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside the Group's control.

The Group's loan portfolio and its overall business are highly concentrated in Spain and the United Kingdom and the Group is particularly exposed to any deterioration in the Spanish and British economy

The Bank is a Spanish financial institution with a nationwide footprint and a particularly strong presence in the regions of Catalonia, the Valencian Community, the Balearic Islands, Asturias and Murcia. The majority of the Bank's gross income (which comprises primarily interest and similar income plus fee and commission income, gains or losses on financial assets and liabilities and other operating income) is derived from Spain, which accounted for 83.7 per cent. and 95.8 per cent. of its income for the years ended 31 December 2015 and 2014, respectively. Accordingly, the performance of the Spanish economy impacts the Bank's business, financial condition, results of operations and prospects.

The Group has historically developed its lending business in Spain. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. After rapid economic growth until 2007, Spanish gross domestic product ("**GDP**") contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (with GDP growth of 3.2 per cent. in 2015) and the public deficit is diminishing, real or perceived difficulties in servicing public or private debt could increase Spain's financing costs. In addition, unemployment levels continue to be high and a change in the current recovery of the labour market would adversely affect households' gross disposable income of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan losses.

The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports, so that, an interruption in the recovery of the Eurozone might have an adverse effect on Spanish economic growth.

It is also worth mentioning that, investor confidence may fall due to uncertainties arising from the results of election processes or a referendum in the different geographies in which the Bank operates, which may ultimately result in changes in laws, regulations and policies. This applies not only to specific Spanish regions such as Catalonia but also to the central Spanish government, where, as at the date of this Base Prospectus, there is a high level of political uncertainty over the ability to form a stable government after the December 2015 Spanish general elections left no single party with a clear majority to form a government. Considering that, as of 30 June 2015, the Group took control of TSB Banking Group plc ("**TSB**" or the "**TSB Banking Group**") (which represents about 21 per cent. of the Group's total assets as of 31 December 2015), the outcome of a possible referendum on the United Kingdom's membership of the European Union could significantly impact the environment in which the TSB Banking Group operates and the fiscal, monetary, legal and regulatory requirements to which it is subject.

After TSB acquisition, the Group has increased its international footprint, mainly in the United Kingdom. As of 31 December 2015, the Group's loan exposure to the United Kingdom was 27 per cent.

The Group's exposure to inherent risks arising from general macro-economic conditions in the United Kingdom, therefore, has increased. During the global financial crisis that started in mid-2008, the United Kingdom economy experienced a significant degree of turbulence and periods of recession, adversely affecting, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets.

While economic indicators in the United Kingdom have been improving recently, the outlook for the United Kingdom economy remains somewhat uncertain, with some forecasts predicting the fragile recovery to continue as such, with modest levels of GDP growth and continued low interest rates over the near to medium term. The Group's customer revenue in the United Kingdom is particularly exposed to the condition of the United Kingdom economy, including house prices, interest rates, levels of unemployment and consequential fluctuations in consumers' disposable income.

If these economic indicators and the United Kingdom economic conditions weaken, or if financial markets exhibit uncertainty and/or volatility, TSB's impairment losses may increase and its ability to grow its business could be materially adversely impacted.

Any deterioration in the global economy, continuing business in Europe and the failure of Spain to return to a sustainable path of growth, deterioration in the solvency of Spanish, British or international Banks or certain

other economic changes in the Eurozone could have a negative impact on the Spanish and British economy which, given the relevance of the Group's loan portfolio in Spain and the United Kingdom, would have a material adverse effect on the Group's business, financial condition and results of operations.

Finally, the Group is also sensitive to developments in other economies, such as the United States (with a gross income of €148 million as of 31 December 2015) and Mexico (with total investments of €57 million as of 31 December 2015). Given the Group's banking operations in the United States and Mexico, unfavourable economic conditions in those countries, including fluctuations in the U.S. dollar/euro exchange rate, adverse developments in the real estate market, lower oil prices, or a higher interest rate environment, including as a result of an increase in interest rates by the United States Federal Reserve, could also have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Legal, Regulatory and Compliance Risks

The Bank and its Group are subject to substantial regulation and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy in any of the jurisdictions where the Group operates could have a material adverse effect on their business, results of operations and financial condition

The financial services industry is among the most highly regulated industries in the world. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crises. Legislation has already been enacted and regulations issued in response to some of these proposals. The regulatory framework for financial institutions is likely to undergo further significant change. This creates significant uncertainty for the Bank and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

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

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

Additionally, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, 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 regulation and the Group may face higher compliance costs. For example, Basel III implementation differs across jurisdictions in terms of timing and the applicable rules, and this lack of uniformity in implemented rules may lead to an uneven playing field, to competition distortions and could adversely affect a bank with international operations such as the Bank, thus undermining its profitability.

Any required changes to the Bank's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit the Bank's ability to pursue business opportunities in which the Bank might otherwise consider engaging, affect the value of assets that the Bank holds, require the Bank to increase its prices and therefore reduce demand for its products, impose additional costs on the Bank or otherwise adversely affect the Bank's businesses. For example, the Bank is subject to substantial regulation relating to liquidity. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect

its net interest margin. Moreover, the 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.

In particular, the Group's results may be adversely affected by the proposed changes to the classification and measurement of financial assets arising from IFRS 9 "**Financial Instruments**", which will require the development of an impairment methodology for calculating the expected credit losses on the Bank's financial assets and commitments to extend credit. These changes to IFRS 9 will become effective for the preparation of financial statements issued after 1 January 2018.

Certain aspects of the Group's business in the United Kingdom may be determined by TSB's regulators, including the United Kingdom Financial Conduct Authority ("**FCA**"), the United Kingdom Prudential Regulation Authority ("**PRA**"), H.M. Treasury, the Financial Ombudsman's Service ("**FOS**"), the Competition and Markets Authority ("**CMA**") or the courts, as not being conducted in accordance with applicable local, or, potentially, overseas laws and regulations or, in the case of the FOS, with that is fair and reasonable in the Ombudsman's opinion. If TSB fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities.

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.

Implementation of capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations

As a Spanish credit institution, the Bank is subject to Directive 2013/36/EU, of 26 June, of the European Parliament on access to credit institution and investment firm activities and on prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**") that replaced Directives 2006/48 and 2006/49 through which the EU began implementing the Basel III capital reforms, with effect from 1 January 2014, with certain requirements in the process of being phased in until 1 January 2019. The core regulation regarding the solvency of credit entities is Regulation (EU) No. 575/2013, of 26 June, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "**CRR**" and together with the "**CRD IV Directive**" and any CRD IV implementing measures, "**CRD IV**"), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of the CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union regulations on the subject of supervision and solvency of financial entities ("**RD-L 14/2013**"), Law 10/2014, of 26 June, on organisation, supervision and solvency of credit entities ("**Law 10/2014**"), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 ("**RD 84/2015**"), and Bank of Spain Circulars 2/2014, of 31 January and 2/2016, of 2 February, to credit entities, on supervision and solvency, which completes the adaptation of Spanish law to CRR and the CRD IV Directive ("**Bank of Spain Circular 2/2016**").

CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by European legislators, binding regulatory technical standards continue to be developed by the European Banking Authority (the "**EBA**"), changes to the way in which the PRA continues to interpret and apply these requirements to banks in the United Kingdom or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to TSB's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

Under CRD IV, the Bank is required, on a consolidated basis and, from 30 June 2015, on an individual basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets of which at least 4.5 per cent. must be CET1 (as defined below) capital and at least 6 per cent. must be tier 1 capital (together, the minimum "Pillar 1" capital requirements). The new regulatory regime has also increased the level of capital required by means of a "combined buffer requirement" that entities must comply with from 2016 onwards. The "combined buffer requirement", which has introduced five new capital buffers ((i) the capital conservation buffer, (ii) the global systemically important institutions buffer, (iii) the institution-specific countercyclical buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer), is in addition to the minimum "Pillar 1" capital requirements and is required to be satisfied with common equity tier 1 ("**CET1**") capital.

While the capital conservation buffer and the global systemically important institutions ("**G-SIBs**") buffer are mandatory, the Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the buffer for institutions deemed of local systemic importance (domestic systemically important banks or "**D-SIBs**") and the buffer for other systemic risks (to prevent systemic or macro prudential risks). With the entry into force of the Single Supervisory Mechanism (the "**SSM**") on 4 November 2014, the European Central Bank (the "**ECB**") also has the ability to provide certain recommendations in this respect. The Bank has not been classified as G-SIB by the Financial Stability Board ("**FSB**") nor by the Bank of Spain so, unless otherwise indicated by the FSB or by the Bank of Spain in the future, it will not be required to maintain this G-SIB buffer. Likewise, although the Bank of Spain has communicated that the Bank will be considered a D-SIB during 2016, it will not be required to maintain a D-SIB buffer during this period.

The Bank of Spain agreed in March 2016 to set the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the second quarter of 2016. The percentages will be revised each quarter.

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

Moreover, Article 104 of CRD IV Directive, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No 1024/2013, of 15 October, conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the "**SSM Regulation**"), also contemplate that in addition to the minimum "Pillar 1" capital requirements, supervisory authorities may impose further "Pillar 2" capital requirements to cover other risks, including those not considered to be fully captured by the minimum "own funds" "Pillar 1" capital requirements under CRD IV or to address macro-prudential considerations.

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Bank and the Group within the SSM. The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the "**SREP**") at least on an annual basis.

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

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

As a result of the most recent SREP carried out by the ECB in 2015, the Bank has been informed by the ECB that it is required to maintain a CET1 phased-in capital ratio of 9.25 per cent. on a consolidated basis. This CET1 capital ratio of 9.25 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.) and the additional own funds requirement under "Pillar 2" including the capital conservation buffer (4.75 per cent.).

As of 31 December 2015, the Bank's CET1 phased-in capital ratio was 11.5 per cent. on a consolidated basis. Such ratio is greater than the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements ("Pillar 1" plus "Pillar 2" plus "combined buffer requirement") imposed on the Bank and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional own funds requirements on the Bank and/or the Group.

Any failure by the Bank and/or the Group to maintain its minimum "Pillar 1" capital requirements, any "Pillar 2" additional own funds requirements and/or any "combined buffer requirement" could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the "Pillar 2" framework or any other capital requirements to which the Bank and/or the Group is or becomes subject (including the "combined

buffer requirement"), may result in the imposition of restrictions or prohibitions on "discretionary payments" by the Bank, including dividend payments.

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

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015 (the "**December 2015 EBA Opinion**"), in the EBA's opinion, competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution. In addition, the opinion advises the European Commission (i) to review Article 141 of the CRD with a view to avoiding differing interpretations of Article 141(6) and thus ensuring greater consistency of the maximum distributable amount framework with the stacking order described in the opinion and in the EBA SREP guidelines and (ii) to review the prohibition on distribution, notably in so far as it relates to additional tier 1 instruments, in all circumstances when no profits are made in any given year. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements. In the meantime, the ECB stated on 5 January 2016 that it would follow the December 2015 EBA Opinion for the application of the Maximum Distributable Amount (although the ECB carried on to state that this approach might nonetheless be revisited, in relation to future regulatory developments or to the application of the EBA guidelines, in order to ensure consistency and harmonisation).

Finally it is worth mentioning that the ECB has also set out in its recommendation of 17 December 2015 on dividend distribution policies, that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements.

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further "Pillar 2" requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms ("**Law 11/2015**"), which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015 ("**RD 1012/2015**") has implemented Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") into Spanish law, which could have a material adverse effect on the Group's business and operations.

At its meeting of 12 January 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from 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 addition to the minimum capital requirements under CRD IV, the BRRD regime prescribes that banks shall hold a minimum level of capital and eligible liabilities in relation to total liabilities (known as "**MREL**"). On 3 July 2015 the EBA published the final draft technical standards on the criteria for determining MREL (the "**Draft MREL Technical Standards**"). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

The MREL requirement came into force on 1 January 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs. Therefore, it has proposed a long phase-in period of up to 48 months (four years) until 2020.

For its part, on 9 November 2015 the FSB published its final Total Loss-Absorbing Capacity ("TLAC") Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of risk weighted assets as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

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

In this regard, the EBA will submit a report to the European Commission by 21 October 2016, which reviews the application of MREL and seeks to bring its implementation closer to that of the TLAC requirement that was published by the FSB in November 2015 and that applies to G-SIBs. On the basis of this report the European Commission may, if appropriate, submit by 31 December 2016 to the European Parliament and the Council a legislative proposal on the harmonised application of MREL, with the possibility of introducing more than one harmonised minimum MREL, and to make any appropriate adjustments to the parameters of this requirement.

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

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

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

Due to these differences and the impact of the requirements of CRD IV on DTAs, the Spanish regulator implemented certain amendments to Law 27/2014, of 27 November, on corporate income tax (the "**Corporate Income Tax Law**") through RD-L 14/2013, which also provided for a transitional regime for DTAs generated before 1 January 2014. These amendments 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. This transitional regime has also been included in Law 27/2014.

However, in 2015 it was agreed that the Corporate Income Tax Law would be amended by means of the 2016 State Budget Law to ensure that the fiscal rules regarding DTAs which have originated from temporary differences between tax and accounting criteria with a government guarantee (also referred to as differed tax credits – "DTCs"), are compatible with European law on state aid and therefore are not subject to the previous uncertainty regarding DTCs deductibility from a bank's regulatory capital.

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

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

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

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

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. The new supervisor is 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 the best practices from the 19 supervisory authorities that form part of the SSM. Several steps have already been taken in this regard such as the publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, the SSM represents an extra cost for the financial institutions that 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 of the European Union (the "**SRM Regulation**"), which was passed on 15 July 2014, and took 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 (as defined below). The new single resolution board started operating from 1 January 2015 and fully assumed its resolution powers on 1 January 2016. The Single Resolution Fund has also been in place since 1 January 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €5 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD). See "*Contributions for assisting in the future recovery and resolution of the Spanish banking sector may have a material adverse effect on the Bank's business, financial condition and results of operations*".

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

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

In the United Kingdom, on 18 December 2013 the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") was enacted. The Banking Reform Act introduces a number of measures which could impact

TSB's business, including (i) a new bail-in option through an amendment to the Banking Act 2009 for resolving failing banks (in addition to the existing stabilisation options) whereby the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity) and/or transfer some or all of the securities of a bank to an appointed bail-in administrator, (ii) powers for the PRA and H.M. Treasury to implement further detailed rules to give effect to the recommendations of the Sir John Vickers' Independent Commission on Banking on ring-fencing requirements for the banking sector, (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution and (iv) preferential ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors.

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.

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

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

The DGSD came into force on 3 July 2014 following publication in the Official Journal of the European Union and Member States had one year from this date to implement it into national law. In Spain, the DGSD was implemented through Law 11/2015 and RD 1012/2015, which established a requirement for Spanish credit institutions, including the Bank, to make at least an annual ordinary contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) (the "**National Resolution Fund**") payable on request of the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the "**FROB**") in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos de Entidades de Crédito*) (the "**Deposit Guarantee Fund**") by member institutions. The total amount of contributions to be made to the National Resolution Fund by all Spanish banking entities must equal, at least, 1 per cent. of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund by 31 December 2024. The contribution will be adjusted to the risk profile of each institution in accordance with the criteria set out in RD 1012/2015. The FROB may, in addition, collect extraordinary contributions.

Furthermore, Law 11/2015 has also established in 2015 an additional charge (*tasa*) which shall be used to further fund the activities of the FROB, in its capacity as a resolution authority, which charge shall equal 2.5 per cent. of the above annual ordinary contribution to be made to the National Resolution Fund.

Furthermore, the DGSD has been largely implemented in the United Kingdom via the United Kingdom Financial Services Compensation Scheme (the "**FSCS**") and PRA rules. In accordance with such provisions, TSB is responsible for contributing to compensation schemes. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on the Group's business, results of operations and financial condition.

In addition, the Bank may need to make contributions to the EU Single Resolution Fund (the "**Single Resolution Fund**"), once the National Resolution Fund has been integrated into it, and will have to pay supervisory fees to the SSM. See "*Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on the Bank's business, financial condition and results of operations.*"

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

Increased taxation and other burdens imposed on the financial sector may have a material adverse effect on the Bank's business, financial condition and results of operations

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common system of financial transaction taxes ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

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

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

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and participating Member States may decide not to participate.

Royal Decree-Law 8/2014, of 4 July, introduced a 0.03 per cent. tax on bank deposits in Spain. This tax 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.

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

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

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

In relation to the Spanish Supreme Court judgment of 9 May 2013 on floor clauses, the negative impact in the interest margin would be approximately €122.3 million as of 31 December 2015.

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

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

Credit and Liquidity Risks

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

The Group is exposed to the creditworthiness of its customers and counterparties. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions.

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

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

Market turmoil and economic weakness, especially in Spain, could have a material adverse effect on the liquidity, business and financial conditions of the Group's clients, which could in turn impair its loan portfolio. Although the Group caters to a range of different customers, one of the business segments on which it focuses is small and medium-sized enterprises ("**SMEs**") in Spain (representing 20 per cent. of the Group's total credit portfolio as of 31 December 2015 compared to 24.7 per cent. as of 31 December 2014). SMEs are particularly sensitive to adverse developments in the economy, rendering the Group's lending activities relatively riskier than if it lent primarily to higher-income customers.

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

A weakening in customer and counterparties creditworthiness could impact the Group's capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its risk-weighted assets ("**RWA**"), in accordance with the CRD IV Directive (as implemented in Spain by Law 10/2014, Royal Decree 84/2015 and Bank of Spain Circular 2/2016) and the CRR. The RWA consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of its assets, which include its lending portfolio. If the creditworthiness of a customer or a counterparty declines, the Group would lower their rating, which would result in an increase in its RWA, which potentially could deteriorate the Group's capital adequacy ratios and limit 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.

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

The Group's main source of liquidity and funding is its customer deposit base, as well as on-going access to wholesale lending markets, including senior unsecured and subordinated bonds, interbank deposits, mortgage and public sector covered bonds and short-term commercial paper. In recent years, however, the prevalence of historically low interest rates has resulted in customers favoring alternative financial products with greater profitability potential over savings accounts or certificates of deposit. Since the Group relies on short-term securities and current accounts for a material portion of its funding (accounting for 55.3 per cent. of the Group's liabilities as of 31 December 2015), it cannot provide any assurance that, in the event that its depositors (as of 31 December 2015 and 2014, total deposits represented 73.6 per cent. and 69.3 per cent. of the Group's total funding, respectively) withdraw their funds at a rate faster than the rate at which borrowers repay their loans or in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which the Group operates or a loss of confidence (including as a result of political or social tensions in the regions where it operates or political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds), the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets and resulting in an adverse effect on the Group's liquidity, business, financial condition, results of operations and prospects.

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

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

The liquidity coverage ratio ("**LCR**") is a quantitative liquidity standard developed by the Basel Committee on Banking Supervision ("**BCBS**") to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and, since January 2015, is being phased-in until 2019. Currently the banks to which this standard applies must comply with a minimum LCR requirement of 60 per cent. and gradually increase the ratio by 10 percentage points per year to reach 100 per cent. by January 2019.

The BCBS's net stable funding ratio ("**NSFR**") has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplates that the NSFR, including any revisions, will be implemented by member countries as a minimum standard by 1 January 2018, with no phase-in scheduled.

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

The Bank makes use of ECB refinancing facilities and other public facilities

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

As of 31 December 2015, ECB funding represented 5.5 per cent. of the Bank's total liabilities. The ECB has established criteria to determine which assets are eligible collateral and the Bank is thus exposed to the risk that the ECB changes its criteria and the assets the Bank holds become ineligible for use as collateral under the new criteria, that the valuation rules are changed or that the costs of using the refinancing facilities increase. If the value of the Bank's eligible assets decline, then the amount of funding it can obtain from the ECB or other central banks will be correspondingly reduced, which could have a material adverse effect on the Bank's liquidity. If these facilities and similar expansionary economic policies were to be withdrawn or ceased, there could be no assurance that the Bank would be able to continue to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets, potentially at significant discounts to book value, to meet its obligations, with a corresponding negative impact on capital.

The Bank has €51 million of indebtedness maturing in 2016 and €1,000 million in 2019, which it may in part refinance by means of balance sheet deleveraging and TLTRO financing. There can be no assurance that the Bank will be able to refinance this indebtedness on commercially reasonable terms, or at all, however, and any failure to achieve its refinancing strategy would have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Any reduction in the Bank's credit rating could increase its cost of funding, adversely affect its interest margins and make its ability to raise new funds or renew maturing debt more difficult

The Bank is rated by various credit rating agencies. At the date of this Base Prospectus, the Bank's long term rating is BB+ with a S&P, Ba1 with a Stable Outlook by Moody's and BBB (high) with a Stable Outlook by DBRS, and its current short-term rating is B by S&P, NP by Moody's and R-1 (low) with a Stable Outlook by DBRS. The Bank's credit ratings are an assessment by rating agencies of its ability to pay its obligations when due. Any actual or anticipated decline in the Bank's credit ratings to below investment grade or otherwise may increase the cost of and decrease its ability to finance itself in the capital markets, secured funding markets (by affecting its ability to replace downgraded assets with better rated ones), interbank markets, through wholesale deposits or otherwise, harm its reputation, require the Bank to replace funding lost due to the downgrade, which

may include the loss of customer deposits, and make third parties less willing to transact business with the Bank or otherwise materially adversely affect its business, financial condition and results of operations. Furthermore, any decline in the Bank's credit ratings to below investment grade or otherwise could breach certain agreements or trigger additional obligations under such agreements, such as a requirement to post additional collateral, which could materially adversely affect the Bank's business, financial condition and results of operations.

Market Risks

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

The Group is exposed to market fluctuations in the price of real estate in various ways. Mortgage loans are one of the Group's main assets and represented 60.7 per cent. of its total gross loan portfolio as of 31 December 2015. Loans to property developers to build properties for sale comprised 9.5 per cent. of this mortgage loan portfolio (amounting to 5.8 per cent. of the Group's total loan portfolio) as of that date. In addition, a significant portion of TSB's revenue is derived from interest and fees paid on its mortgage portfolio.

Declines in property prices decrease the value of the real estate collateral securing the Group's mortgage loans and adversely affects the credit quality of property developers to whom the Group has lent.

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

In addition, the rate of the Group's non-performing loans ("NPLs") in the real estate development sector has been significantly higher than those in other sectors. As of 31 December 2015, 38.7 per cent. of the Group's loans to the real estate development sector were non-performing compared to its overall average of 7.79 per cent. (excluding assets covered by the asset protection scheme ("APS") entered into by the Bank with the Deposit Guarantee Fund in relation to the Banco CAM, S.A.U. ("**Banco CAM**") acquisition. Failure to recover the expected value of collateral in the case of foreclosure may expose the Group to losses which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group faces market risk associated with fluctuations in bond and equity prices and other market factors inherent in its business

The performance of financial markets could cause changes in the value of the Group investment and trading portfolios. To the extent current market conditions deteriorate, the fair value of the Group's bond, derivative and structured credit portfolios could fall more than currently estimated, and therefore cause the Group to record write-downs. Future valuations of the assets for which the Group has already recorded or estimated write-downs, which reflect the then-prevailing market conditions, may result in significant changes in the fair values of these assets. Further, the value of certain financial instruments are recorded at fair value which is determined by using financial models that incorporate assumptions, judgments and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for the Group in the case of any asset devaluations. Any of these factors could require the Group to recognise further write-downs or realise impairment charges, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group's business is particularly sensitive to changes in interest rates

The Group's results of operations depend upon the level of its net interest income, which is the difference between interest income from loans and other interest-earning assets and interest expense paid to its depositors and other creditors on interest-bearing liabilities. Net interest income contributed 75.0 per cent. and 74.4 per cent. of the Group's gross income (excluding gains from a sale of financial assets) in the years ended 31 December 2015 and 2014, respectively.

Interest rates are highly sensitive to many factors beyond the Group's control, including fiscal and monetary policies of governments and central banks and regulation of the financial sectors in the markets in which it operates, as well as domestic and international economic and political conditions and other factors. As approximately 80.1 per cent. of the Group's loan portfolio as of 31 December 2015 consisted of variable interest rate loans, its business is sensitive to volatility in interest rates. Approximately 29.1 per cent. of such loans had

interest rate collars (which mitigate in part the Group's exposure to interest rate decreases and increases within a predetermined range).

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

The Group is exposed to sovereign debt risk

As of 31 December 2015, the Group's investment securities (not including equity investments and shares and other variable income securities) were carried on its balance sheet at a fair value of €25,413 million, representing 12.2 per cent. of its total assets. As of that date, €9,209 million, or 36.2 per cent. of such investment securities, consisted of securities issued by the Spanish government, autonomous community governments, municipal councils, Spanish government agencies (such as the FROB) and securitisation vehicles which issue bonds guaranteed by the Kingdom of Spain (such as the Fondo de Amortización del Déficit Eléctrico or "FADE").

Any decline in Spain's credit ratings could adversely affect the value of Spain's, Spanish autonomous communities' and other Spanish issuers' respective securities held by the Group in its various portfolios and could also adversely impact the extent to which the Group can use the Spanish government bonds it holds as collateral for ECB refinancing and, indirectly, for refinancing with other securities. Likewise any permanent reduction in the value of Spanish government bonds would be reflected in the Group's capital position and would adversely affect its ability to access liquidity, raise capital and meet minimum regulatory capital requirements. As such, a downgrade or series of downgrades in the sovereign rating of Spain and any resulting reduction in the value of Spanish government bonds may have a material adverse effect on the Group's business, capital position, financial condition, results of operations and prospects. Furthermore, any downgrades of Spain's ratings may increase the risk of a downgrade of the Group's credit ratings by the rating agencies.

Besides Spain, the main countries where the Group has investment securities exposure to are Italy, the United States of America, the United Kingdom, Portugal and Mexico, with investments of €6,063 million, €2,482 million, €1,690 million, €685 million and €83 million, respectively, as of 31 December 2015.

Business and Industry Risks

Operational risks are inherent to the Group's business

The Group's business is dependent on its ability to process a large number of transactions efficiently and accurately. The Group is exposed to a variety of operational risks including those resulting from process error, system failure, under-performance of its staff, inadequate customer services, natural disasters or the failure of external systems including clerical or record keeping errors, or errors resulting from faulty computer, telecommunications or information systems, or from external events.

The Group's business activities require it to record and process a large number of transactions and handle large amounts of money accurately on a daily basis. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's business and to its ability to compete effectively. A human or technological failure, error, omission or delay in recording or processing transactions, or any other material breakdown in internal controls, could subject the Group to claims for losses from clients, including claims for breach of contractual and other obligations, and to regulatory fines and penalties. Further, any failure or interruption or breach in security of communications and information systems could result in failures or interruptions in the Group's customer relationship management, general ledger, deposit, servicing and/or loan organisation systems or lead to theft of confidential customer information, computer viruses or other disruptions. Additionally, the Group faces the risk of theft, fraud or deception carried out by clients, third-party agents, employees and managers. Any of the above could provoke reputational and/or financial harm to the Group,

which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group's economic hedging may not prevent losses

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

In addition, following TSB's acquisition, the Bank is exposed to foreign exchange risk relating to the United Kingdom. In particular, the depreciation or appreciation of the pound sterling against the euro lead to changes in the Group's reported earnings, assets (including risk-weighted assets) and liabilities. Each of these factors may have a material adverse effect on the Group's business, financial condition, results of operations, capital ratios, and prospects.

The Group faces increasing consolidation of the competition in its business lines

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

The United Kingdom financial services market is highly competitive and the Group expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which TSB operates are mature, such that growth by any bank typically requires winning market share from competitors.

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

If the Group fails to implement strategies to maintain or enhance its competitive position relative to these improved banking institutions, the Group's market share may deteriorate and this may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group may generate less income from fee and other commission based transactions in the future

Net fee and commission income represented 18.3 per cent. and 17.9 per cent. of the Group's gross income for the years ended 31 December 2015 and 2014, respectively, and is an important part of its overall profitability. Reduced fee and commission income from the Group's Commercial Banking, Corporate Banking, Markets and Private Banking, Asset Transformation, Banking Business in the UK and Banking Business in America business units, due to the weak performance of foreign exchange markets or other financial markets or underperformance

(compared to certain benchmarks or the Group's competitors) by funds or accounts that the Group manages or investment products that it sells, or declines in portfolio values as a result of market conditions and increased client perceptions of risk from financial markets may have an adverse effect on its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

The Group allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its businesses. From time to time, the Group evaluates acquisition opportunities that it believes offer additional value to its shareholders and are consistent with its business strategy. Over the past four years, the Group has made a number of acquisitions, some of which have been material to the Group (including Banco CAM in 2012 and more recently the Banco Mare Nostrum, S.A. franchise in Catalonia and Aragon, Lloyds TSB Bank's Spanish branches and Banco Gallego, S.A. in 2013 and TSB Banking Group in 2015). The Group's ability to benefit from any such acquisitions will depend in part on its successful integration of those businesses. The Group can give no assurances that its expectations with regards to integration and synergies will materialise. The Group also cannot provide assurance that it will, in all cases, be able to manage its growth effectively or deliver its strategic growth objectives. Challenges that may result from its strategic growth decisions and its recent or planned acquisitions include its ability to manage efficiently the operations and employees of expanding businesses, maintain or grow its existing customer base, assess the value, strengths and weaknesses of investment or acquisition candidates, finance strategic investments or acquisitions, fully integrate strategic investments, or newly-established entities or acquisitions in line with its strategy, align its current information technology systems adequately with those of an enlarged group, apply its risk management policy effectively to an enlarged group, and manage a growing number of entities without over-committing management or losing key personnel. Likewise, upon the completion of these acquisitions, in certain cases all of the rights and obligations of the acquired businesses were or will be assumed by the Group. Despite the legal and business due diligence review conducted in respect of these businesses in connection with their acquisition, the Group may subsequently uncover information that was not known to the Group and which may give rise to significant new contingencies or to contingencies in excess of the projections made by the Group.

In addition, the Group cannot provide assurance that it will be able to identify suitable acquisition candidates. Any failure to manage growth effectively, including relating to any or all of the above challenges associated with the Group's growth plans, could have a material adverse effect on its operating results, financial condition and prospects.

Furthermore, the operational integration of entities or businesses which the Group may acquire could prove to be difficult and complex, and the benefits and synergies obtained from that integration may not be in line with expectations.

Finally, the Group may fail to realise some or all of the benefits of the revenue increases or cost reductions that could result from acquisitions as a result of, among other things, not benefiting from anticipated lower funding costs, not successfully consolidating its businesses with those of the acquired entities or not successfully expanding its commercial and banking platforms across wider geographic markets or the continued duplication of administrative functions.

As a result of any of the above, the Group may fail to meet the targets it has established in respect of revenue increases, cost reductions, return on equity and post-acquisition and integration regulatory capital ratios with respect to such acquisitions, which could have material adverse effects on the Group's business, financial condition, results of operations and prospects.

Risks related to TSB

The Group may incur unanticipated losses or increased costs in connection with the acquisition of TSB or may not be able to integrate TSB successfully

Since the Group was not present in the United Kingdom before the acquisition of TSB, the operational integration of TSB into the Group (including the migration of TSB's IT system from the Lloyds Banking Group to Banco Sabadell) could prove to be particularly difficult and complex, may substantially divert management's time, attention and resources and may be more expensive, time consuming, and resource intensive than anticipated. Additionally, given the Group's lack of experience in the United Kingdom market, it may take strategic decisions which negatively impact the positioning and profitability of TSB.

TSB's reliance on services arrangements with Lloyds Bank plc exposes TSB to a range of potential operational and regulatory risks

In connection with TSB's divestment from the Lloyds Banking Group plc ("**Lloyds Banking Group**"), TSB Bank has entered into an arm's-length Transitional Services Agreement (the "**TSA**") with Lloyds Bank plc ("**Lloyds Bank**") for the continued provision of a range of banking operations services to TSB on a transitional basis. In accordance with the terms of the TSA, which commenced on 25 June 2014 and will continue in effect through 31 December 2016, a subset of the TSA services will continue to be provided by Lloyds Bank for a further period of up to seven and a half years under the Long Term Services Agreement (the "**LTSA**"). Lloyds Bank's ability to terminate the TSA or LTSA before the end of the term of such agreement is limited. Lloyds Bank may only terminate the TSA or LTSA if required to do so by a regulatory authority or law, or for the non-payment of a sum in excess of £20 million by TSB.

Any interruption to the banking operations services provided under the TSA or LTSA could cause material damage to TSB's business and reputation, and could cause TSB to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. If Lloyds Bank fails to provide or procure the services envisaged or fails to provide them in a timely manner, under the TSA or LTSA, such failure could have a material adverse effect on TSB's business, prospects, results of operations and financial position.

The Mortgage Enhancement and the UKAR portfolio acquisition may not deliver the expected profit pool

As mentioned earlier ("*The cyclical nature of the real estate industry may adversely affect the Group's operations*"), a significant portion of TSB's revenue is derived from interest and fees paid on its mortgage portfolio. The interest includes the economic benefit of a portfolio of £3.1 billion of residential mortgages (the "**Additional Mortgages**") as at 30 June 2014, beneficial title to which was transferred by the Bank of Scotland plc ("**Bank of Scotland**") (the transferring entity in Lloyds Banking Group) to TSB with effect from 28 February 2014 (the "**Mortgage Enhancement**"). As of 31 December 2015, the outstanding balance of the Mortgage Enhancement portfolio was £2,272 million. The Mortgage Enhancement structure has been designed in order to meet Lloyds Banking Group's obligations under its State aid commitments.

The Mortgage Enhancement structure has been constructed in a manner that aims to enhance TSB's profitability by approximately £220 million in aggregate for the first four years from (and including) 2014 (the "**Profit Objective**") through income from the Additional Mortgages portfolio. While the Profit Objective is designed to enhance TSB's short-term profitability and competitiveness, it does not represent a guaranteed stream of income.

The Profit Objective is predicated on certain assumptions. Variations in the elements underlying these assumptions could impact the income stream from the Mortgage Enhancement in different ways.

Finally, while the Bank of Scotland has agreed not to treat the Additional Mortgages in a manner that is different to that in which it treats the rest of its mortgage portfolio, it may, from time to time, consistent with the terms of the relevant products, re-price its entire portfolio, which includes the Additional Mortgages or otherwise alter the policies impacting its mortgage book as a whole, which includes the Additional Mortgages. Among other things, this could lead to a decrease in the income that TSB will receive. This could have a material adverse impact on TSB's business, financial condition and results of operations.

On 7 December 2015, TSB acquired a £3,006 million credit asset portfolio, composed mainly by mortgage loans, to the UK Asset Resolution ("**UKAR Portfolio**"). The Group considers that the £3,041 million paid in consideration, reflects the fair market value of the assets, provided that the credit asset portfolio was acquired by means of a public auction and takes into account all the factors which influence the fair market value such as the credit and conduct risk. However, volatility in the United Kingdom housing market or other reasons could have an adverse impact on the UKAR Portfolio and as a consequence it may not deliver the expected profit pool. This could have a material adverse impact on TSB's business, financial condition and results of operations.

The Conduct Indemnity may not cover all potential losses arising as a result of conduct-related issues

TSB and Lloyds Bank entered into a Separation Agreement on 9 June 2014 (the "**Separation Agreement**"). The Separation Agreement governs the separation of TSB from Lloyds Banking Group and certain aspects of the relationship between TSB and Lloyds Banking Group including (amongst other things) the allocation of certain pre-admission to trading of TSB on the London Stock Exchange (the "**Admission**") liabilities, including liability for breach of law and regulation and of customer terms and conditions. Under the terms of the Separation Agreement, Lloyds Bank has agreed, subject to certain limitations, to provide each member of TSB with a range of indemnity protection in respect of historical, pre-Admission issues. This protection includes a broad and, save in certain limited respects, uncapped indemnity in respect of losses arising from pre-Admission acts or omissions that constitute breaches of law and regulation relating to customer agreements or the relevant security interest securing liability under such agreements (the "**Conduct Indemnity**").

There are and will be limits to its coverage. For example, credit losses arising as a result of matters that are covered by the Conduct Indemnity will only be recoverable in certain circumstances.

Claims made by TSB pursuant to the Conduct Indemnity may be disputed and there can be no guarantee that the Conduct Indemnity will be found to be applicable in all cases. Claims on the Conduct Indemnity are subject to the continuing solvency of Lloyds. In addition, TSB may be exposed to conduct-related risks and losses that fall outside the scope of the Conduct Indemnity that could have a material adverse impact on its reputation, business, results of operations and financial position.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks Related to Early Intervention and Resolution

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

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

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

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the FROB, the SRM or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) or any other entity with the authority to exercise any such tools and powers from time to time (each, a "**Relevant Spanish Resolution Authority**") as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest.

The four resolution tools are: (i) sale of business (which enables the Relevant Spanish Resolution Authority to direct the sale of the institution or the whole or part of its business on commercial terms); (ii) bridge institution (which enables the Relevant Spanish Resolution Authority to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control)); (iii) asset separation (which enables the Relevant Spanish Resolution Authority 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 (by which the Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power (as defined below)), which includes the ability of the Relevant Spanish Resolution Authority to write down and/or to convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims (including the Senior Notes and the Subordinated Notes issued under the Programme).

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

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion shall be as follows: (i) CET1 instruments; (ii) Additional Tier 1 instruments; (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) eligible liabilities.

In addition to the Spanish Bail-in Power, the BRRD and Law 11/2015 provide for the Relevant Spanish Resolution Authority to have the further power to permanently write-down or convert into equity capital instruments (such as the Tier 2 Subordinated Notes) at the point of non-viability ("**Non-Viability Loss Absorption**"). The point of non-viability is the point at which the Relevant Spanish Resolution Authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Tier 2 Subordinated Notes) are written down or converted into equity or extraordinary public support is to be provided and without such support the Relevant Spanish Resolution Authority determines that the institution would no longer be viable. Non-Viability Loss Absorption may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015 Noteholders may be subject to, among other things, on any application of the Spanish Bail-in-Power a write-down and/or conversion into equity or other securities or obligations of amounts due under such Notes and, in the case of Tier 2 Subordinated Notes, may be subject to any Non-Viability Loss Absorption. The exercise of any such powers (or any of the other resolution powers and tools) may result in such Noteholders losing some or all of their investment or otherwise having their rights under such Notes adversely affected. For example, the Spanish Bail-in Power may be exercised in such a manner as to result in Noteholders receiving a different security, which may be worth significantly less than the Notes. Moreover, the exercise of the Spanish Bail-in Power with respect to the Notes or the taking by the Relevant Spanish Resolution Authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially

adversely affect the rights of Noteholders, the market price or value or trading behaviour of any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

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

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

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

Noteholders may not be able to exercise their rights on an event of default in the event of the adoption of any early intervention or resolution measure under Law 11/2015

The Issuer may be subject to a procedure of early intervention or resolution pursuant to the BRRD as implemented through Law 11/2015 and RD 1012/2015 if the Issuer or its group is in breach (or due, among other things, to a rapidly deteriorating financial condition, it is likely in the near future to be in breach) of applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls or the conditions for resolution referred to above are met (see "*The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the Noteholders under, and the value of, any Notes*").

Pursuant to Law 11/2015 the adoption of any early intervention or resolution procedure shall not itself constitute an event of default or entitle any counterparty of the Issuer to exercise any rights it may otherwise have in respect thereof and any provision providing for such rights shall further be deemed not to apply. However, 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 early intervention or resolution procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to Law 11/2015.

Any enforcement by a Noteholder of its rights under the Notes upon the occurrence of an Event of Default following the adoption of any early intervention or resolution procedure will, therefore, be subject to the relevant provisions of the BRRD as implemented through Law 11/2015 and RD 1012/2015 in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see "*The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the Noteholders under, and the value of, any Notes*"). Any claims on the occurrence of an Event of Default will consequently be limited by the application of any measures pursuant to the provisions of Law 11/2015 and RD 1012/2015. There can be no assurance that the taking of any such action would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and the enforcement by a holder of any rights it may otherwise have on the occurrence of any Event of Default may be limited in these circumstances.

Minimum requirement for own funds and eligible liabilities (MREL)

The BRRD prescribes that banks shall hold a minimum level of capital and eligible liabilities in relation to total liabilities (known as MREL). On 3rd July, 2015 the EBA published the final draft technical standards on the criteria for determining MREL (the "**Draft MREL Technical Standards**"). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law or include a contractual term by which the noteholders agree to be bound by any reduction of the principal or outstanding amount due, conversion or cancellation that is effected by the exercise of those resolution powers by a resolution authority.

The MREL requirements came into force on 1 January 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs. Therefore, it has proposed a long phase-in period of up to 48 months (four years) until 2020.

Additionally, the EBA will submit a report to the European Commission by 21st October, 2016, which reviews the application of MREL and seeks to bring its implementation closer to that of the TLAC requirement that was published by the FSB in November 2015 and that applies to G-SIBs. On the basis of this report it is expected that the European Commission submits by 31st December, 2016 to the European Parliament and the Council a legislative proposal on the harmonised application of MREL, with the possibility of introducing more than one harmonised minimum MREL, and to make any appropriate adjustments to the parameters of this requirement.

If the Relevant Spanish Resolution Authority finds that there could exist any obstacles to resolvability by the Issuer and/or the Group, a higher MREL requirement could be imposed.

The Draft MREL Technical Standards do not provide details on the implications of a failure by an institution to comply with its MREL requirements. However, if the approach set out by the FSB in the TLAC Principles and Term Sheet is adopted in respect of MREL then a failure by an institution to comply with MREL would be treated in the same manner as a failure to meet minimum regulatory capital requirements (see "*Implementation of capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*").

Accordingly, any failure by the Issuer and/or the Group to comply with its MREL requirement may have a material adverse effect on the Issuer's business, financial conditions and results of operations. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement" and the MREL requirement once implemented in Spain.

Risks Related to the Structure of a Particular Issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features including factors which may occur in relation to any Notes:

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return and the redemption of the Subordinated Notes that qualify as Tier 2 capital is subject to certain conditions

An optional redemption feature (including any redemption of the Notes for taxation reasons pursuant to Condition 10(b) (*Redemption for taxation reasons*) and, in the case of Subordinated Notes, upon the occurrence of a Capital Event or an Eligible Liabilities Event (each as defined in Conditions 10(d) (*Redemption at the option of the Issuer (Capital event)*) and 10(e) (*Redemption at the option of the Issuer (Eligible Liabilities Event)*)), respectively, as the case may be) is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, or during which there is an actual or perceived increased likelihood that the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem its Notes when their cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a

significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations (as defined in the Conditions) or, in the case of a redemption of the Notes for taxation reasons, the application thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Issuer is able to elect to redeem the Notes, and if so whether or not the Issuer will elect to exercise such option to redeem the Notes or, in the case of Subordinated Notes, as applicable, any prior consent of the Competent Authority (as defined in the Conditions) required for such redemption will be given. There can be no assurances that, in the event of any such early redemption, Noteholders will be able to reinvest the proceeds at a rate that is equal to the return on the Notes.

The redemption of Tier 2 Subordinated Notes that qualify as Tier 2 capital of the Issuer at the option of the Issuer is subject to the Competent Authority' consent and such consent will be given only if either of the following conditions is met:

- i. on or before such redemption of the Tier 2 Subordinated Notes, the Issuer replaces the Tier 2 Subordinated Notes with Tier 2 instruments of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or
- ii. the Issuer has demonstrated to the satisfaction of the Competent Authority that its Tier 1 capital (*capital de nivel 1* pursuant to Applicable Banking Regulations) and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Regulator may consider necessary on the basis set out in CRD IV.

The Senior Notes may be redeemed prior to maturity. The Subordinated Notes may be redeemed prior to maturity at the Issuer's option for taxation reasons or upon the occurrence of a Capital Event or an Eligible Liabilities Event, subject to certain conditions

If so specified in the Final Terms, the Notes may be redeemed at the Issuer's option. 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.

In the event that the Issuer 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 the Kingdom of Spain or any political subdivision thereof or any authority therein having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. In respect of Tier 2 Subordinated Notes only, the Notes may be redeemed for taxation reasons, if the Issuer would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any payment of interest to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be materially reduced, in each case as a result of any change in, or amendment to, the laws or regulations 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 date of issue of the first Tranche of the Notes and in any event only if so permitted by the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority, as further described in Condition 10(b) (*Redemption for taxation reasons*).

Additionally, if a Capital Event occurs as a result of a change (or any pending change which the Competent Authority considers sufficiently certain) in Spanish law, Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the Issuer may redeem all, and not some only, of any Series of the Tier 2 Subordinated Notes subject to such redemption being permitted by the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority, as further described in Condition 10(d) (*Redemption at the option of the Issuer (Capital Event)*).

Furthermore, if an Eligible Liabilities Event occurs as a result of a change (or any pending change which the Competent Authority considers sufficiently certain) in Spanish law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the Senior 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 Banking Regulations then in force, and subject to the prior

consent of the Competent Authority (if required pursuant to such regulations), as further described in Condition 10(e) (*Redemption at the option of the Issuer (Eligible Liabilities Event)*).

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or the application thereof, or any of the other events referred to above, will occur and so lead to circumstances in which the Issuer is able to elect to redeem the Notes, and if so whether or not the Issuer will elect to exercise such option to redeem the Notes.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

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 Principal Paying 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.

Risks relating to Floating Rate Notes

Investment in Notes which bear interest at a floating rate comprise (i) a reference rate and (ii) a margin to be added or subtracted, as the case may be, from such base rate. Typically, the relevant margin will not change throughout the life of the Notes but there will be a periodic adjustment (as specified in the relevant Final Terms) of the reference rate (e.g., every three months or six months) which itself will change in accordance with general market conditions. Accordingly, the market value of floating rate Notes may be volatile if changes, particularly short term changes, to market interest rates evidenced by the relevant reference rate can only be reflected in the interest rate of these Notes upon the next periodic adjustment of the relevant reference rate. Should the reference rate be at any time negative, it could, notwithstanding the existence of the relevant margin, result in the actual floating rate be lower than the relevant margin.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their original nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Claims of Holders under the Senior Notes are effectively junior to those of certain other creditors

The Senior Notes are unsecured and unsubordinated obligations of the Issuer. The Senior Notes will rank equally with any of the Issuer's other outstanding unsecured and unsubordinated obligations, present and future, but, subject to (a) Law 11/2015, RD 1012/2015 or other applicable laws relating to recovery and resolution of credit institutions and investment firms in Spain (including the exercise of any power thereunder) and (b) in the event of insolvency, the Insolvency Law or other laws relating to or affecting the enforcement of creditor's rights in Spain.

The Senior Notes will be effectively subordinated to all of the Issuer's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other obligations that rank senior under Spanish law. In particular the obligations of the Issuer under the Senior Notes will be effectively subordinated to all of the Issuer's obligations that are preferred under the Insolvency Law.

The Senior Notes are also structurally subordinated to all indebtedness of subsidiaries of the Issuer insofar as any right of the Issuer to receive any assets of such companies upon their winding-up will be effectively subordinated to the claims of the creditors of those companies in the winding-up.

Moreover, the BRRD and Law 11/2015 contemplate that Senior Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. This may involve the variation of the terms of the Senior Notes or a change in their form, if necessary, to give effect to, the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. See "*Risks related to Early Intervention and Resolution —The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the right of the Noteholders under, and the value of, any Notes*".

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

The Issuer's obligations under the Subordinated Notes will be unsecured and subordinated and will rank junior to all unsubordinated obligations of the Issuer. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a greater risk that an investor in Subordinated Notes will lose all or some of its investment should the Issuer become (i) subject to resolution under the BRRD (as implemented through Law 11/2015 and RD 1012/2015) and the Subordinated Notes become subject to the application of the Spanish Bail-in Power (including, in the case of Tier 2 Subordinated Notes, Non-Viability Loss Absorption) or (ii) insolvent.

In the case of any exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, the sequence of any resulting write-down or conversion of the Notes under Article 48 of the BRRD and Article 48 of Law 11/2015 provides for the principal amount of Tier 2 instruments (such as the Tier 2 Subordinated Notes) to be written-down or converted into equity or other securities or obligations prior to the principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 capital (such as the Senior Subordinated Notes) in accordance with the hierarchy of claims provided in the Insolvency Law and for the latter to be written-down or converted into equity or other securities or obligations prior to any write-down or conversion of the principal amount or outstanding amount of any eligible liabilities (such as the Senior Notes), in accordance with the hierarchy of claims provided in the Insolvency Law. Tier 2 Subordinated Notes may be subject to Non-Viability Loss Absorption, which may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power. See "*Risks related to Early Intervention and Resolution - The Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the Noteholders under, and the value of, any Notes*".

In the event of insolvency, after payment in full of unsubordinated claims, but before distributions to shareholders, under article 92 of the Insolvency Law read in conjunction with Additional Provision 14.2º of Law 11/2015, the Issuer 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 within those, in the following order: firstly, Senior Subordinated Notes and secondly, Tier 2 Subordinated Notes); (iii) interest (including accrued and unpaid interest due on the Subordinated Notes); (iv) fines; (v) claims of creditors which are specially related to the Issuer (if applicable) as provided for under the Insolvency Law; (vi) detrimental claims against the Issuer 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.

Additional Provision 14.2º of Law 11/2015 established a change in the ranking of claims under Article 92.2 of the Insolvency Law for Spanish banking insolvency proceedings. According to such change, contractually subordinated debt will be classified into three different categories with the following ranking: firstly, principal amount of subordinated debt not qualifying as Additional Tier 1 instruments or Tier 2 instruments, secondly principal amount of subordinated debt qualifying as Tier 2 instruments and, thirdly, principal amount of subordinated debt qualifying as Additional Tier 1 instruments.

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

Holders of Subordinated Notes in general 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.

Pursuant to the CRR, the Issuer is prohibited from including in the terms and conditions of any Subordinated Notes that qualify as Tier 2 capital of the Issuer 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 Noteholders.

Risks Relating to the Insolvency Law

The Insolvency Law provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency, (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency will not be enforceable, and (iii) interest (other than 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. Any payments of interest in respect of debt securities will be subject to the subordination provisions of article 92.3 of the Insolvency Law.

The Insolvency Law, in certain instances, also has the effect of modifying or impairing creditors' rights even if the creditor, either secured or unsecured, does not consent to the amendment. Secured and unsecured dissenting creditors may be written down not only once the insolvency has been declared by the judge as a result of the approval of a creditors' agreement (*convenio concursal*), but also as a result of an out-of-court restructuring agreement (*acuerdo de refinanciación pre-concursal*) without insolvency proceedings having been previously opened (e.g., refinancing agreements which satisfy certain requirements and are validated by the judge), in both scenarios (i) to the extent that certain qualified majorities are achieved and unless (ii) some exceptions in relation to the kind of claim or creditor apply (which would not be the case for the Notes).

The majorities legal regime envisaged for these purposes also hinges on (i) the type of the specific restructuring measure which is intended to be imposed (e.g., extensions, debt reductions, debt for equity swaps, etc.) as well as (ii) on the part of claims to be written-down (i.e. secured or unsecured, depending on the value of the collateral as calculated pursuant to the rules established in the Insolvency Law).

In no case shall subordinated creditors be entitled to vote upon a creditors' agreement during the insolvency proceedings, and accordingly, shall be always subject to the measures contained therein, if passed. Additionally, liabilities from those creditors considered specially related persons for the purpose of Article 93.2 of the Insolvency Law would not be taken into account for the purposes of calculating the majorities required for the out-of-court restructuring agreement (*acuerdo de refinanciación pre-concursal*).

Risks Related to Notes Generally

The Notes are complex instruments that may not be suitable for certain investors

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (c) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets;
- (d) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where Euros (the currency for principal and interest payments) is different from the potential investor's currency; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investment. The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risks relating to the Spanish withholding tax regime

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

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

If the Spanish Tax Authorities maintain a different opinion as to the application by the Issuer of withholding to payments made to Spanish tax residents (individuals and entities subject to Corporate Income Tax (*Impuesto sobre Sociedades*)), the Issuer will be bound by the opinion and, with immediate effect, will make the appropriate withholding. 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 interpreted by the Spanish Tax Authorities. If procedures for the collection of the Noteholders information are to apply, the Noteholders will be informed of such new procedures and their implications.

Notwithstanding the above, in the case of Notes held by Spanish tax resident individuals and, under certain circumstances, by Spanish entities subject to Corporate Income Tax and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Notes may be subject to withholding by such depositary or custodian (19 per cent. as from 1 January 2016) and the Issuer may not be required to pay the relevant Noteholder additional amounts (as described above, please see "*Terms and Conditions of the Notes — Taxation*").

In particular, with regard to Spanish entities subject to Corporate Income Tax, withholding could be made if it is concluded that the Notes do not comply with the relevant exemption requirements and those specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) dated 27 July 2004 are deemed

included among such requirements. According to said 2004 ruling, application of the exemption requires that, in addition to being traded on an organized market in an OECD country, the Notes are placed outside Spain in another OECD country. In the event that it was determined that the exemption from withholding tax on payments to Spanish corporate Noteholders does not apply to any of the Notes on the basis that they were placed, totally or partially, in Spain, the Issuer would be required to make a withholding at the applicable rate, and no additional amounts will be payable by the Issuer in such circumstances as set out above.

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

The procedure described in this Base Prospectus for the provision of information required by Spanish laws and regulations is a summary only and neither the Issuer nor the Dealers assumes any responsibility therefor.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Withholding under the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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 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.

A number of non-EU countries 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.

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Directive from 1 January 2016 in relation to all Member States other than in the case of Austria (and from 1 January 2017, or after 1 October 2016 for certain payments, in relation to Austria), subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates.

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 106 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 payments 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 EC Council Directive 2003/48/EC.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Conditions (except for Condition 4 (*Status of Notes*)) of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or

change to Spanish and English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Euroclear and Clearstream, Luxembourg procedures

The Global Notes (as defined in the "Forms of Notes" section) will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Notes, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by the Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in either Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks Related to the Market Generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, that investor will be exposed to movements in exchange rates adversely affecting the value of their holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes (including on an unsolicited basis). The ratings may not reflect the potential impact of all the risks related to structure, market, additional factors discussed above and do not address the price, if any, at which the Notes may be resold prior to maturity (which may be substantially less than the original offering prices of the Notes), and other factors that may affect the value of the Notes. However, real or anticipated changes in the Issuer's credit rating will generally affect the market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

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

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 Banco de Sabadell, S.A.

Issuer Banco de Sabadell, S.A. ("Banco Sabadell" or the "Bank") as Issuer

Corporate purpose: The corporate purpose of Banco Sabadell is set forth in Article 4 of its Articles of Association (*Estatutos Sociales*) consisting of generally carrying out all banking operations capable of being undertaken by credit entities in accordance with current legislation.

Directors: The Directors of Banco Sabadell are as follows:

<u>Name</u>	<u>Principal Occupation</u>
José Oliu Creus	Chairman
José Javier Echenique Landiribar	Deputy-Chairman
Jaime Guardiola Romojaro	CEO
Aurora Catá Sala	Director
Héctor María Colonques Moreno	Director
Joaquín Folch- Rusiñol Corachán	Director
M. Teresa Garcia- Milà Lloveras	Director
José Manuel Lara García	Director
Joan Llonch Andreu	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
Antonio Vitor Martins Monteiro	Director
José Luis Negro Rodriguez	Director
David Vegara Figueras	Director

The Bank and the Group: Banco Sabadell was incorporated on 31 December 1881 for an unlimited term as a limited liability corporation (*Sociedad Anónima*)

It is registered in Volume 20,093, Book 1 and Sheet B-1561 of the Mercantile Registry of Barcelona

The Bank's registered office is at Plaça de Sant Roc, nº 20, PC 08201 (Barcelona, Spain).

Banco Sabadell is the parent company of the Group which, as at 31 December 2015, comprised the 170 companies that the Group fully

consolidates.

As of 30 March 2016, Banco Sabadell's issued share capital of €679,905,624.00 was comprised of 5,439,244,992 shares of a single series and class, with a nominal value per ordinary share of €0.125. The main shareholders of the Bank are Jaime Gilinski Bacal, Winthrop Securities Limited and BlackRock, Inc with 7.49 per cent., 3.08 per cent. and 3.09 per cent. respectively.

Business:

Banco Sabadell is the fourth largest privately owned banking group in Spain measured by total assets (based on Banco Sabadell's 2015 Q4 financial reports which are publicly available), with total consolidated assets and total net customer loans of €208.6 billion and €146.8 billion, respectively, as of 31 December 2015.

For the years ended 31 December 2015 and 2014 the Group's consolidated profit before impairment and other provisions (calculated as operating profit or loss plus impairment losses (net) and provisioning expense (net)) was €2,863 million and €2,749 million, respectively, and its consolidated profit attributable to the parent company was €708 million and €372 million, respectively.

From 1 July 2015, the Group is organised in the following business units: Banking business in Spain, Asset Transformation, Banking Business in the UK and Banking Business in America. Banking business in Spain includes the following business units: Commercial Banking; Corporate Banking; and Markets and Private Banking.

The Group's business concentrates on domestic retail banking and SME banking. Commercial Banking is the largest of the Group's business units. It focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers, businesses and individuals (including private banking, personal banking and mass-market customers), non-residents and occupational groups.

Description of the Programme

Description:

Euro Medium Term Note Programme

Arranger:

Deutsche Bank AG, London Branch

Dealers:

Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Goldman Sachs International, Merrill Lynch International, Natixis, Société Générale and UBS Limited.

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.

Fiscal Agent:

The Bank of New York Mellon, London Branch

Size:

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.

Distribution:

Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:

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.

- Maturities:** Any maturity greater than one year in the case of Senior Notes and Senior Subordinated Notes and a minimum maturity of five years in the case of Tier 2 Subordinated Notes, as indicated in the applicable Final Terms or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant Competent Authority or any applicable laws or regulations.
- Denomination:** No Notes may be issued under the Programme which have a minimum denomination of less than €100,000 (or equivalent in another currency). 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. No Notes will be issued with tradeable amounts less than the minimum denomination specified in the relevant Final Terms.
- Method of Issue:** 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.
- Form of Notes:** Notes may be issued in bearer form, with or without interest coupons ("**Bearer Notes**").
- 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 "**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. Interests in a Temporary Global Note will be exchangeable for interests in a permanent global Note in bearer form, without coupons (a "**Permanent Global Note**").
- Issue Price:** 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.
- Interest:** Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate. 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.
- Fixed Rate Notes:** Fixed interest will be payable in arrear on the date or dates in each year, specified in the relevant Final Terms.

Fixed Reset Notes:	Fixed Reset Notes will initially bear interest at a fixed rate up to 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 specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest set separately for each Series at a rate determined (i) on the same basis as the Floating Rate (as defined in the ISDA Definitions) under a notional interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions; or (ii) 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.
Zero coupon Notes:	Zero Coupon Notes will be offered or sold at a discount to their original nominal amount and will not bear interest.
Partial redemption:	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.
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default or, in the case of Senior Subordinated Notes, upon the occurrence of an Eligible Liabilities Event or, in the case of Tier 2 Subordinated Notes, upon the occurrence of a Capital Event) or that such Notes will be redeemable at the option of the Issuer (either in whole or in part) and/or the Noteholders, and if so the terms applicable to such redemption.</p> <p>Subordinated Notes may not be redeemed prior to their original maturity other than in compliance with Applicable Banking Regulations (as defined in the Conditions) then in force and with the consent of the Competent Authority, if required. In no circumstances may Subordinated Notes be redeemed prior to their maturity at the option of the Noteholders. See Conditions 10(b) to 10(e) and 10(h).</p>
Status of the Notes:	Notes may be either Senior Notes, Senior Subordinated Notes or Tier 2 Subordinated Notes as more fully described in Condition 4 (<i>Status of Notes</i>).
Taxation:	<p>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 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:</p> <p style="margin-left: 40px;">(i) to, or to a third party on behalf of, a holder in respect of whom the Issuer (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)</p>

as it may be required in order to comply with Spanish tax reporting requirements; or

- (ii) 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
- (iii) 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.

For a fuller description of taxation issues please see Condition 12 (*Taxation*).

Negative Pledge:

Applicable exclusively to Senior Notes. The Senior Notes will contain a negative pledge as more fully set out in Condition 5 (*Negative Pledge*).

Cross Default:

Applicable exclusively to Senior Notes. The Senior Notes will contain a cross default in respect of Indebtedness of the Issuer and its Relevant Subsidiaries as more fully set out in Condition 13 (*Events of Default relating to Senior Notes*).

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 is required to provide to the Spanish tax authorities certain information relating to the Notes.

If the Fiscal Agent fails to provide the Issuer with the required information described under "*Taxation*", the Issuer may be required to withhold tax at the current rate of 19 per cent. In that event, the Issuer 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.

A summary of the procedures to collect the above referenced information is set out in "*Taxation - the Kingdom of Spain*".

None of the Arranger, the Dealers and the Clearing Systems assume any responsibility therefore.

Governing Law:

English law, save for Condition 4 (*Status of Notes*) and any non-contractual obligation arising out of or in connection with it, which is governed by the laws of Spain.

Listing:

This Base Prospectus has been approved by the CBI as competent authority under the Prospectus Directive. The CBI 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, as specified in the relevant Final Terms. Unlisted Notes will not be issued under the Programme.

Selling Restrictions:	<p>United States, United Kingdom and Spain. See "<i>Subscription and Sale</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>
Risk Factors:	<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>
Representation of holders of the Notes:	<p>In accordance with Condition 18 (<i>Meetings of Noteholders; Modification and Waiver</i>), Schedule 5 (<i>Provisions for Meetings of Noteholders</i>) of the Agency Agreement contains provisions for convening meetings of holders of Notes to consider any matter affecting their interests.</p>
Rating:	<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 CRA Regulation.</p> <p>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.</p>

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. an English language translation of the audited consolidated annual accounts (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 31 December 2014 which is available on:

https://www.grupbancabadell.com/g3repository/PDF/EN_INFOLEGAL2014_INFLEGAL_EN_2014.PDF

2. an English language translation of the audited consolidated annual accounts (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 31 December 2015 which is available on:

https://www.grupobancosabadell.com/g3repository/PDF/EN_INFOLEGAL2015_ANNUAL2015.PDF

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

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at Plaza Sant Roc, 20, 08201 Sabadell, Barcelona, Spain. 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.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "necessary information" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions described in the relevant Final Terms as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Notes or (2) by a registration document (the "**Registration Document**") containing the necessary information relating to the Issuer, a securities note (the "**Securities Note**") containing the necessary information relating to the relevant Notes and, if necessary, a summary note.

FORMS OF THE NOTES

Each Tranche of Notes will initially be in the form of either a temporary global note (the "**Temporary Global Note**"), without interest coupons, or a permanent global note (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163 5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership provided, however, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**") when the Final Terms specify "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

- (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- (ii) any of the circumstances described in Condition 13 (*Events of Default relating to Senior Notes*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in

the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes when the relevant Final Terms specify "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

- (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- (ii) any of the circumstances described in Condition 14 (*Events of Default relating to Subordinated Notes*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"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 on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment or principal in respect of such Notes or any related Coupons.

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes (save for the paragraphs in italics which are for disclosure purposes only) which, as completed by the relevant Final Term, will be endorsed on each Note in definitive form issued under the Programme. In the case of any Tranche of Notes which are being (a) offered to the public in a Member State (other than pursuant to one or more of the exemptions set out in Article 3.2 of the Prospectus Directive) or (b) admitted to trading on a regulated market in a Member State, the relevant Final Terms shall not amend or replace any information in this Base Prospectus. Subject to this, to the extent permitted by applicable law and/or regulation, the Final Terms in respect of any Tranche of Notes may complete any information any information in this Base Prospectus.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

- (a) *Programme:* Banco de Sabadell, S.A. (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to €5,000,000,000 in aggregate principal amount of notes (the "**Notes**").
- (b) *Final Terms:* 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.
- (c) *Agency Agreement:* The Notes are the subject of an issue and paying agency agreement dated 31 March 2016 (the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents (if any) named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).
- (d) *The Notes:* All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at Banco de Sabadell, S.A. at Plaza Sant Roc, 20, 08201 Sabadell, Barcelona, Spain, and copies may be obtained from The Bank of New York Mellon, London Branch's offices at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom.
- (e) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement is available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.
- (f) *Public Deed of Issuance:* the Issuer will execute a public deed (*escritura pública*) (the "**Public Deed of Issuance**") before a Spanish Notary Public in relation to the Notes on or prior to the Issue Date of the Notes. The Public Deed of Issuance will contain, among other information, the terms and conditions of the Notes.

2. Interpretation

- (a) *Definitions:* In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Tier 1 instrument**" means any contractually subordinated obligation of the Issuer constituting an additional tier 1 instrument (*instrumento de capital adicional de nivel 1*) in accordance with Applicable Banking Regulations;

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

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

"**Business Day**" means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**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:

- (a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) "**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 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 Business Day;
- (c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) "**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:**
 - (i) 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 Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a 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

"**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means Banco Sabadell 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;

"**Capital Event**" means, at any time, on or after the Issue Date, a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Tier 2 Subordinated Notes that results or would be likely to result in (i) the exclusion of the Tier 2 Subordinated Notes in whole or, to the extent not prohibited by the Applicable Banking Regulations, in part, from the Tier 2 capital of the Issuer and/or the Group; or (ii) their reclassification, in whole or, to the extent not prohibited by the Applicable Banking Regulations, in part, as a lower quality form of regulatory capital of the Issuer and/or the Group;

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

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**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 Competent Authority, 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);

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

"**DBRS**" means DBRS Ratings Ltd.;

"**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:

- (a) if "**Actual/Actual (ICMA)**" is so specified, means:
 - (i) 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
 - (ii) 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;
- (iii) 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);
- (iv) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (v) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) 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:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" 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

"**D₂**" 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";

- (vii) 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:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" 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

"**D₂**" 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

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:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" 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 D₁ will be 30; and

"**D₂**" 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 D₂ 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**" 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;

"**Eligible Liabilities Event**" means the determination by the Issuer after consultation with the Competent Authority that the Senior Subordinated Notes are no longer eligible for inclusion in the amount of eligible liabilities of the Issuer or the Group for the purposes of Article 45 of the BRRD (as implemented in Spain and including any amendment or replacement of the relevant implementing provisions) or Applicable Banking Regulations or any other regulations applicable in Spain from time to time, provided that an Eligible Liabilities Event shall not occur where such ineligibility for inclusion of the Senior Subordinated Notes in the amount of eligible liabilities is due to the remaining maturity of the Senior Subordinated Notes being less than any period prescribed by any applicable eligibility criteria under the Applicable Banking Regulations (or any other regulations applicable in Spain from time to time) effective on the Issue Date;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a

designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

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

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

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

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

"**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;

"**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;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

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

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Initial Interest Rate**" has the meaning given in the relevant Final Terms;

"**Insolvency Law**" means Spanish Law 22/2003, of 9 July 2003, on Insolvency;

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

"Interest Determination Date" has the meaning given in the relevant Final Terms;

"Interest Payment Date" means the First Interest Payment Date and any other 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:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) 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 each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Definitions" means 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;

"LIBOR" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

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

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

"Meeting" means a meeting of Noteholders (whether originally convened or resumed following an adjournment);

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

"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;

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

"Moody's" means Moody's Investor's Service Limited;

"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 Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"Payment Business Day" means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"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 separate legal personality;

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

- (a) 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
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, 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 major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"Reference Price" has the meaning given in the relevant Final Terms;

"Reference Rate" means EURIBOR or LIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms;

"Regular Period" means:

- (a) 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;
- (b) 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
- (c) 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.

"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 in the Principal Financial Centre of the currency of payment 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 Indebtedness" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"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 Subsidiary" means, at any particular time, any Subsidiary of the Issuer:

- (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 consolidated accounts as the case may be) of such Subsidiary and the most recently published audited consolidated accounts of the Issuer; or
- (b) whose gross revenues represent not less than 10 per cent. of the gross consolidated revenues of the Group, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) of such Subsidiary and the then latest audited consolidated accounts of the Issuer.

For the purposes of this definition:

- (i) *if there shall not at any time be any relevant audited consolidated accounts of the Issuer, references thereto herein shall be deemed to be references to a consolidation (which need not be audited) by the Issuer of the relevant audited accounts of the Issuer and its Subsidiaries;*
- (ii) *if, in the case of a Subsidiary which itself has Subsidiaries and where such Subsidiary is obliged by applicable law to prepare consolidated accounts, the consolidated net assets and consolidated gross revenues shall be compared to net consolidated assets and gross consolidated revenues of the Group; if, in the case of a Subsidiary which itself has Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated gross revenues shall be determined on the basis of pro forma consolidated accounts (which need not be audited) of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the Issuer;*
- (iii) *if (A) any Subsidiary shall not in respect of any relevant financial period for whatever reason produce audited accounts or (B) any Subsidiary shall not have produced at the relevant time for the calculations required pursuant to this definition audited accounts for the same period as the period to which the latest audited consolidated accounts of the Issuer relate, then there shall be substituted for the purposes of this definition the management accounts of such Subsidiary for such period;*
- (iv) *where any Subsidiary is not wholly owned by the Issuer there shall be excluded from all calculations all amounts attributable to minority interests;*
- (v) *in calculating any amount all amounts owing by or to the Issuer and any Subsidiary to or by the Issuer and any Subsidiary shall be excluded; and*
- (vi) *in the event that accounts of any companies being compared are prepared on the basis of different generally accepted accounting principles, there shall be made such adjustments to any relevant financial items as are necessary to achieve a true and fair comparison of such financial items;*

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

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

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

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

"**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;

"Reset 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;

"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 Reset 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 Reset 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;

"S&P" means Standard & Poor's Credit Market Services Europe Limited;

"Second Reset Date" has the meaning given in the relevant Final Terms;

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"Spanish Companies Act" means the Restated Spanish Companies Act approved by the Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*);

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

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

"Specified Office" has the meaning given in the Agency Agreement;

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

"Subsequent Reset Date" has the meaning given in the relevant Final Terms;

"Subsequent Reset Rate" means the sum of the applicable Mid-Swap Rate and the Reset Margin on the relevant Reset Determination Date;

"Subsidiary" means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"Talon" means a talon for further Coupons;

"TARGET2" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"TARGET Settlement Day" means any day on which TARGET2 is open for the settlement of payments in euro;

"Tier 2 capital" means tier 2 capital (*capital de nivel 2*) pursuant to Applicable Banking Regulations;

"Tier 2 instrument" means any contractually subordinated obligation of the Issuer constituting a tier 2 instrument (*instrumento de capital de nivel 2*) in accordance with Applicable Banking Regulations;

"**Treaty**" means the Treaty establishing the European Communities, as amended;

"**Voter**" has the meaning given to it in the Agency Agreement; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination and Title**

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes, Coupons and Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

4. **Status of Notes**

- (a) 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 (*concurso*) of the Issuer, Senior Notes will rank *pari passu* among themselves and with all other unsecured and unsubordinated obligations of the Issuer unless they qualify as subordinated claims pursuant to article 92 of the Insolvency Law, and subject to any applicable legal and statutory exceptions.

In the event of insolvency (concurso) of the Issuer, under the Insolvency Law claims relating to Senior Notes (unless they qualify as subordinated credits under Article 92 of the Insolvency Law, and subject to any applicable legal and statutory exceptions) will be ordinary credits (créditos ordinarios) as defined in the Insolvency Law. Ordinary credits rank below credits against the insolvency state (créditos contra

la masa) and credits with a privilege (créditos privilegiados) which shall include, without limitation, any deposits for the purposes of Additional Provision 14.1° of Law 14/2015 which shall be paid in full before ordinary credits. The claims of all creditors against the Issuer considered as ordinary credits will be satisfied pro rata in insolvency. Ordinary credits rank above subordinated credits and the rights of shareholders. Pursuant to Article 59 of the Insolvency Law, 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) If this Condition 4(b) is specified in the Final Terms as being applicable, the Notes shall be Senior Subordinated Notes "**Senior Subordinated Notes**" or Tier 2 Subordinated Notes "**Tier 2 Subordinated Notes**", together "**Subordinated Notes**". The payment obligations of the Issuer under the Subordinated Notes whether on account of principal, interest or otherwise, constitute direct, unconditional and subordinated obligations of the Issuer and, in accordance with Additional Provision 14.2° of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Issuer (unless they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law), obligations of the Issuer on account of principal of the Subordinated Notes will rank:
- (i) for so long as they do not constitute a Tier 2 instrument of the Issuer, which would be intended to be the case if Senior Subordinated Notes are specified in the Final Terms:
 - (A) **senior** to (i) any claims for principal in respect of contractually subordinated obligations of the Issuer qualifying as Additional Tier 1 instruments or Tier 2 instruments; (ii) any subordinated obligations of the Issuer under Articles 92.3° to 92.7° of the Insolvency Law; and (iii) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank junior to the Issuer's obligations under the Senior Subordinated Notes;
 - (B) *pari passu* among themselves and with (i) all other claims for principal in respect of contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 instruments or Tier 2 instruments of the Issuer and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law; and (ii) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank *pari passu* to the Issuer's obligations under the Senior Subordinated Notes; and
 - (C) **junior** to (i) any unsubordinated obligations of the Issuer; (ii) any subordinated obligations of the Issuer under Article 92.1 of the Insolvency Law; and (iii) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the Senior Subordinated Notes.
 - (ii) For so long as they constitute a Tier 2 instrument of the Issuer, which would be intended to be the case if Tier 2 Subordinated Notes are specified in the Final Terms:
 - (A) **senior** to (i) any claims for principal in respect of contractually subordinated obligations of the Issuer qualifying as Additional Tier 1 instruments; (ii) any subordinated obligations of the Issuer under Articles 92.3° to 92.7° of the Insolvency Law, and (iii) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank junior to the Issuer's obligations under the Tier 2 Subordinated Notes;
 - (B) *pari passu* among themselves and with (i) any other claims for principal in respect of contractually subordinated obligations of the Issuer qualifying as Tier 2 instruments and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law, and (ii) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Issuer's obligations under the Tier 2 Subordinated Notes; and

- (C) **junior** to (i) any unsubordinated obligations of the Issuer; (ii) any subordinated obligations of the Issuer under Article 92.1 of the Insolvency Law; (iii) any claim for principal in respect of other contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 instruments or Tier 2 instruments (such as the Senior Subordinated Notes, if and as applicable) and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law; and (iv) any other subordinated obligations which by law and/or by their terms, and to the extent permitted by Spanish law, rank senior to the Issuer's obligations under the Tier 2 Subordinated Notes.

5. **Negative Pledge**

This Condition 5 applies to the Senior Notes only. So long as any Senior Notes remain outstanding, the Issuer shall, and shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

6. **Fixed Rate Note Provisions**

- (a) *Application:* This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *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 11 (*Payments*). 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 (as well after as before judgment) until whichever is the earlier of (i) 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 (ii) the day which is seven days after the Fiscal Agent 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).
- (c) *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.
- (d) *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.

7. **Fixed Reset Note Provisions**

- (a) *Application:* This Condition 7 is applicable to the Notes only if the Fixed Reset Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of Interest:* Each Fixed Reset Note bears interest:
- (i) 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;
 - (ii) 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

- (iii) 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 7 shall apply, as applicable, in respect of any determination by Banco Sabadell of the Rate of Interest for a Reset Period in accordance with this Condition 7 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 7. Once the Rate of Interest is determined for a Reset Period, the provisions of Condition 6 (*Fixed Rate Note Provisions*) shall apply to Fixed Reset Notes, as applicable, as if the Fixed Reset Notes were Fixed Rate Notes.

- (c) *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 20 (*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.
- (d) *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 7 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 Paying Agent 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.

8. **Floating Rate Note Provisions**

- (a) *Application:* This Condition 8 (*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.
- (b) *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 11 (*Payments*). 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 (i) 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 (ii) the day which is seven days after the Fiscal Agent 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).
- (c) *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:
 - (i) 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;
 - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation

Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

- (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
- (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

- (iii) 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;
- (iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) 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:
 - (A) request the principal Relevant Financial Centre office of each of 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
 - (B) determine the arithmetic mean of such quotations; and
- (v) 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.

- (d) *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:
 - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;

- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) 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 (B) in any other case, as specified in the relevant Final Terms; and
- (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
 - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (e) *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.
- (f) *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.
- (g) *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 competent 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. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (h) *Notifications:* 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 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.

9. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 9 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
- (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) 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 (ii) the day which is seven days after the Fiscal Agent 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).

10. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).
- (b) *Redemption for taxation reasons:* Except in the case of Subordinated Notes which may only be redeemed at any time if so permitted by the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority (if such permission is required in respect of Senior Subordinated Notes), the Notes may be redeemed at the option of the Issuer in whole, but not in part:
- (i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Final Terms as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant final terms, (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if:

- (A) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*), or (ii) in the case of Subordinated Notes only, the Issuer would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any payment of interest to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be materially reduced, in each case as a result of any change in, or amendment to, the laws or regulations of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (B) in the case of Condition 10(b)(ii)(A)(i) above, such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant final terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant final terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall (A) deliver to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred of and (B) use its best efforts to deliver to the Fiscal Agent an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

- (c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant final terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

In the case of Subordinated Notes redemption at the option of the Issuer shall be in whole, subject to compliance with the Applicable Banking Regulations then in force and subject to the permission of the Competent Authority (if such permission is required in respect of Senior Subordinated Notes). Redemption of the Tier 2 Subordinated Notes may not take place within a period of five years from their date of issue and redemption of the Senior Subordinated Notes may not take place within a period of one year from their date of issue, or, in each case, such other minimum or maximum length as may be permitted or required from time to time by Applicable Banking Regulations or requirements of the Competent Authority.

- (d) *Redemption at the option of the Issuer (Capital Event):* If a Capital Event occurs as a result of a change (or any pending change which the Competent Authority considers sufficiently certain) in Spanish law, Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the Tier 2 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 Banking Regulations then in force and subject to the permission of the Competent Authority, 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 20 (*Notices*), the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), at their Early Redemption Amount, (together with interest accrued, if applicable, to (but excluding) the date fixed for redemption).

- (e) *Redemption at the option of the Issuer (Eligible Liabilities Event)*

If an Eligible Liabilities Event occurs as a result of a change (or any pending change which the Competent Authority considers sufficiently certain) in Spanish law, Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the Senior 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 Banking Regulations and subject to the permission of the Competent Authority, 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 20 (*Notices*), the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption) at the Early Redemption Amount (together with interest accrued to (but excluding) the date fixed for redemption).

- (f) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Senior Notes and/or Subordinated Notes (provided that all unmatured 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 Banking Regulations in force at the time of such a purchase and subject to the permission of the Competent Authority, if required.

Under the current Applicable Banking Regulations an institution requires the prior permission of the Competent Authority (Article 77(b) and 78 of CRR) to effect the purchase of Tier 2 Subordinated Notes, and these may not be purchased before five years after the date of issuance (Article 63(j) of CRR).

- (g) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent 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 notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (h) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(h), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant final terms), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(h), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(h), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes. No such redemption option will be applicable to any Subordinated Notes, unless as permitted under Applicable Regulations.
- (i) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (g) above.
- (j) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
- (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(j) or, if none is so specified, a Day Count Fraction of 30E/360.

- (k) *Cancellation:* All Notes redeemed by the Issuer in accordance with Conditions 10(b), (c), (d), (e) and (h), and any unmatured Coupons and unexchanged Talons attached thereto or surrendered with them at the time of redemption, shall be cancelled and may not be reissued or resold.

11. **Payments**

- (a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes (in the case of all other payments of principal) at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other

account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

- (b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto.
- (e) *No commissions or expenses:* No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (f) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

- (g) *Unmatured Coupons void:* If the relevant Final Terms specifies that this Condition 11(g) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for taxation reasons*), Condition 10(c) (*Redemption at the option of the Issuer*), Condition 10(d) (*Redemption at the option of the Issuer (Capital Event)*), Condition 10(e) (*Redemption at the option of the Issuer (Eligible*

Liabilities Event)), Condition 10(h) (*Redemption at the option of Noteholders*), or Condition 13 (*Events of Default relating to Senior Notes*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (h) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (i) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (j) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (k) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. **Taxation**

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision therein 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 shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:
 - (i) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon;
 - (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer (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
 - (iii) 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;
 - (iv) 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;

- (v) 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;
- (vi) 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
- (vii) 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 any other provision of the Terms and Conditions, all payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Redemption Amounts and all other amounts in the nature of principal payable pursuant to Condition 10 (*Redemption and Interest*), (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Conditions 6 (*Fixed Rate Note Provisions*) and 7 (*Fixed Reset Note Provisions*) and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts which may be payable under this Condition. See "Taxation" for a fuller description of certain tax considerations (particularly in relation to Noteholders which are resident in Spain) relating to the Notes.

- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than The Kingdom of Spain, references in these Conditions to the Kingdom of Spain shall be construed as references to The Kingdom of Spain and/or such other jurisdiction.

13. **Events of Default relating to Senior Notes**

This Condition 13 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, then any Note may, unless there has been an Extraordinary Resolution to the contrary at a meeting of Noteholders, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon the Redemption Amount of such Notes together with accrued interest to the date of payment shall become immediately due and payable without further action or formality:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal or interest in respect of the Notes within 14 days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or
- (c) *Cross-default of Issuer or Relevant Subsidiary:*
 - (i) any Indebtedness of the Issuer or any of its Relevant Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; or

- (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or any of its Relevant Subsidiaries or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
- (iii) the Issuer or any of its Relevant Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds €50,000,000 (or its equivalent in any other currency or currencies); or

- (d) *Cessation of Business*: the Issuer or any of the Issuer's Relevant Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (save for the purpose of an amalgamation, reorganisation restructuring while solvent); or
- (e) *Unsatisfied judgment*: one or more final judgment(s) or order(s) for the payment of an aggregate amount in excess of €50,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its respective Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Relevant Subsidiaries provided that the amount of security enforced equals or exceeds €50,000,000 (or its equivalent in any other currency or currencies); or
- (g) *Insolvency*: (i)(A) in respect of the Issuer, an order is made by any competent court commencing insolvency proceedings (*procedimientos concursales*) against it or an order is made or a resolution is passed for the dissolution or winding up of the Issuer, and in respect of any of the Issuer's Relevant Subsidiaries, proceedings are initiated against any such Relevant Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (except in any such case for the purpose of a Permitted Reorganisation); or (B) an application made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer (or any of its Relevant Subsidiaries) or in relation to the whole or any substantial part of the undertaking or assets of any of them; or (C) an encumbrance takes possession of the whole or any substantial part of the undertaking or assets of the Issuer (or any of its Relevant Subsidiaries); or (D) a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Issuer (or any of its Relevant Subsidiaries); and (ii) in any case is or are not discharged within 30 days;
- (h) *Winding up*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Relevant Subsidiaries (except in any such case for the purpose of a Permitted Reorganisation); or
- (i) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes.

For the purpose of this Condition 13:

"Permitted Reorganisation" means:

- (a) with respect to the Issuer, a reconstruction, merger or amalgamation (i) which has been approved by an Extraordinary Resolution at a meeting of Noteholders and is on a solvent basis; or (ii) where the entity resulting from any such reconstruction, merger or amalgamation is (A) a financial institution (*entidad de crédito*) under article 1 of Law 10/2014 and (B) has a rating for long-term senior debt assigned by Standard & Poor's, Moody's or DBRS equivalent to or higher than the rating for long-term senior debt of the Issuer immediately prior to such reconstruction, merger or amalgamation; and

- (b) with respect to a Relevant Subsidiary, a reconstruction, merger or amalgamation (i) which has been approved by an Extraordinary Resolution at a meeting of Noteholders; and (ii) is on a solvent basis.

14. **Events of Default relating to Subordinated Notes**

This Condition 14 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 if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer (except in the case of a reconstruction, merger or amalgamation (i) which has been approved by an Extraordinary Resolution at a meeting of Noteholders and is on a solvent basis; or (ii) where the entity resulting from any such reconstruction, merger or amalgamation is (A) a financial institution (*entidad de crédito*) under article 1 of Real Decreto Legislativo 1298/1986 dated 28 June, as amended and restated and (B) has a rating for long-term subordinated debt assigned by S&P, Moody's or DBRS equivalent to or higher than the rating for long-term subordinated debt of the Issuer immediately prior to such reconstruction, merger or amalgamation) and such order is continuing, then any Note may, unless there has been an Extraordinary Resolution to the contrary at a meeting of Noteholders, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon the Redemption Amount of such Notes together with accrued interest to the date of payment shall become immediately due and payable without further action or formality.

If an Event of Default occurs under this Condition 14, claims of Noteholders in respect of the Notes shall rank as set out under Condition 4(b) (*Status of Notes*).

15. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (a) the Issuer shall at all times maintain a Fiscal Agent; and
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

- (c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification and Waiver**

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening Meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Voters holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Voters being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Voters holding or representing not less than two-thirds or, at any adjourned meeting, not less than one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

20. **Notices**

Notices to the Noteholders shall be valid if published (a) if the rules of the exchange on which the Notes are listed so required, in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe or (b) if and for so long as the Notes are admitted to trading on, and listed on the Official List of the Irish Stock Exchange, on the Irish Stock Exchange's website, www.ise.ie. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

21. **Rounding**

- (a) For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting

from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **Governing Law and Jurisdiction**

- (a) *Governing law:* Condition 4 (*Status of Notes*) and all matters arising out of or in connection with it (including a dispute relating to any non-contractual obligations arising out of or in connection with it) is governed by Spanish law. Save as mentioned above, the Notes, Coupons and Talons and all matters arising from or connected with the Notes, 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.
- (b) *English Courts:* The courts of England have exclusive jurisdiction to settle any dispute arising from or connected with the Notes, 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:* The Issuer 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) Condition 22(b) (*English courts*) is for the benefit of the holders of the Notes, Coupons and/or Talons only. As a result, nothing in this Condition 22 (*Governing law and jurisdiction*) prevents any holder of a Note, 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 and/or Talons may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of process:* The Issuer 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 Banco de Sabadell, S.A., London Branch at Sabadell House, 120 Pall Mall, London SW15 5EA, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.
- (f) *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

Final Terms dated 31 March 2016

Banco de Sabadell, S.A.
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

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 (the "**Conditions**") set forth in the Base Prospectus dated 31 March 2016 [and the supplement[s] dated *[insert date]*] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of 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 has been published on the Central Bank of Ireland's website at <http://www.centralbank.ie> and on the website of the Irish Stock Exchange at available for viewing at www.ise.ie.]¹

The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU **provided, however, that** all references in this document to the "Prospectus Directive" in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and include any relevant implementing measure in the relevant Member State.

[In accordance with the Prospectus Directive, no prospectus is required in connection with the issuance of the Notes described herein.]

[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 (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms.]

- | | | | |
|----|---------|---|---|
| 1. | (i) | Issuer: | Banco de Sabadell, S.A. |
| 2. | [(i)] | Series Number: | [•] |
| | [(ii)] | Tranche Number:] | [•] |
| | [(iii)] | Date on which the Notes become fungible:] | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] 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: | [•] |
| | [(i)] | [Series]: | [•] |
| | [(ii)] | Tranche: | [•]] |
| 5. | | Issue Price: | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•] (in the case of fungible |

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

- 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/Not Applicable]
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]
 [•][•] [EURIBOR/LIBOR]+/- [•] per cent. Floating Rate]
 [Zero Coupon]
 (see paragraph [14/15/16/17] below)
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [•]/[100] per cent. of their nominal amount.
11. Change of Interest or Redemption/Payment Basis: [*Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14 and 16 below and identify there/Not Applicable*]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [Issuer Call Option – Capital Event (Tier 2 Subordinated Notes)]
 [Issuer Call Option – Eligible Liabilities Event (Senior Subordinated Notes)]
 [See paragraph [18/19/20] below]
13. [(i)] Status of the Notes: [Senior Notes/Senior Subordinated Notes/ Tier 2 Subordinated Notes]
- [(ii)] [Date [Board] approval for [•] [and [•], respectively issuance of Notes] obtained:
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date / [payable [annually/ semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year in each year [adjusted in accordance with [•]]/[not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•] [Not Applicable]

[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]

- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / Actual/365(Fixed) / [Actual/360]/[30/360]]
- (vi) [Ratings Step-up/Step down: [Applicable/Not Applicable]
[Step-up/Step-down Margin: [•] per cent. *per annum*]]

15. **Fixed Reset Note Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Initial Interest Rate: [•] per cent. per annum payable in arrear on each Interest Payment Date / [payable [annually/ semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [•]]/[not adjusted]
- (iii) Fixed Coupon Amount to (but excluding) the First Reset Date: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•][Not Applicable]
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / Actual/365(Fixed) / [Actual/360]/[30/360]]
- (vi) First Reset Date: [•]
- (vii) Second Reset Date: [[•]/Not Applicable]
- (viii) Subsequent Reset Date(s): [[•]/Not Applicable]
- (ix) Mid Swap Rate: [•]
- (x) Reset Margin: [+/-][•] per cent. *per annum*
- (xi) Relevant Screen Page: [•]
- (xii) Floating Leg Reference Rate: [•]
- (xiii) Floating Leg Screen Page: [•]

(xiv)	Initial Mid-Swap Rate:	[•] per cent. <i>per annum</i> (quoted on a[n annual/semi-annual basis])
16.	Floating Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Specified Period:	[•]
(ii)	Specified Interest Payment Dates:	[•]
(iii)	[First Interest Payment Date]:	[•]
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
(v)	Additional Business Centre(s):	[Not Applicable/[•]]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]):	[•] shall be the Calculation Agent
(viii)	Screen Rate Determination:	<ul style="list-style-type: none"> • Reference Rate: [•][•] [EURIBOR/ LIBOR] • Interest Determination Date(s): [•] • Relevant Screen Page: [•] [<i>For example, Reuters LIBOR 01/EURIBOR 01</i>] • Relevant Time: [•] [<i>For example, 11.00 a.m. London time/Brussels time</i>] • Relevant Financial Centre: [•]
(ix)	ISDA Determination:	<ul style="list-style-type: none"> • Floating Rate Option: [•] • Designated Maturity: [•] • Reset Date: [•]
(x)	Linear interpolation	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (<i>specify for each short or long interest period</i>)
(xi)	Margin(s):	[+/-][•] per cent. <i>per annum</i>
(xii)	Minimum Rate of Interest:	[•] per cent. <i>per annum</i>
(xiii)	Maximum Rate of Interest:	[•] per cent. <i>per annum</i>
(xiv)	Day Count Fraction:	[•]

(xv)	[Ratings Step-up/Step-down: [Step-up/Step-down Margin:]	[Applicable/Not Applicable] [•] per cent. per annum]]
17.	[Zero Coupon Note Provisions]	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Accrual Yield:]	[•] per cent. per annum
(ii)	Reference Price:]	[•]
(iii)	Day Count Fraction in relation to Early Redemption Amount:]	[30/360 / Actual/Actual (ICMA/ISDA) / other]

PROVISIONS RELATING TO REDEMPTION

18.	Call Option	[Applicable/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	Issuer Call Option (pursuant to Condition 10(c))	[Applicable/Not Applicable]
	Capital Event (Tier 2 Subordinated Notes pursuant to Condition 10(d))	[Applicable/Not Applicable]
	Eligible Liabilities Event (Senior Subordinated Notes pursuant to Condition 10(e))	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s) (Call):	[•]
(ii)	Optional Redemption Amount(s) (Call) of each Note:	[•] per Calculation Amount
	(a) Reference Bond:	[•]
	(b) Quotation Time:	[•]
	(c) Redemption Margin:	[•] per cent.
	(d) Determination Date:	[•]
	(e) Reference Dealers:	[•]
(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
(iv)	Notice period:	[•]
19.	Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>

- (i) Optional Redemption Date(s) [•]
(Put):
 - (ii) Optional Redemption Amount(s) [•] per Calculation Amount
(Put) of each Note:
 - (iii) Notice period: [•]
20. Final Redemption Amount of each Note [•] per Calculation Amount
21. Early Redemption Amount
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or upon the occurrence of a Capital Event or upon the occurrence of an Eligible Liabilities Event: [Not Applicable (if both the Early Redemption Amount and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount 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 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 in the limited circumstances specified in the Permanent Global Note]
23. New Global Note form: [Applicable/Not Applicable]
24. Additional Financial Centre(s): [Not Applicable/[•]] [Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraph 15(v) relates]
25. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No]

THIRD PARTY INFORMATION

[Relevant third party information] has been extracted from [specify source]. The Issuer 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 [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of **Banco de Sabadell, S.A.**

By:
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Admission to Listing: [Application [has been/is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to listing on [the Official List of the Irish Stock Exchange] with effect from [•].]

(ii) Admission to Trading: Application [has been/is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the regulated market of the Irish Stock Exchange] with effect from [•].]

(When documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

(iii) Estimate of total expenses related to admission to trading: [•]

2. RATINGS

The Notes to be issued [have been/are expected to be] rated/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

Ratings: [Standard & Poor's: [•]]

[Moody's: [•]]

[DBRS: [•]]

[[Other]: [•]]

Option 1 - CRA established in the EEA and registered under the CRA Regulation

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Option 2 - CRA established in the EEA, not registered under the CRA Regulation but has applied for registration

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and has applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority] / [European Securities and Markets Authority].

Option 3 - CRA established in the EEA, not registered under the CRA Regulation and not applied for registration

[Insert legal name of particular credit rating agency entity providing rating] is established in the EEA and is neither registered nor has it applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Option 4 - CRA not established in the EEA but relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA but the rating it has given to the Notes is endorsed by *[insert legal name of credit rating agency]*, which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Option 5 - CRA is not established in the EEA and relevant rating is not endorsed under the CRA Regulation but CRA is certified under the CRA Regulation

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Option 6 - CRA neither established in the EEA nor certified under the CRA Regulation and relevant rating is not endorsed under the CRA Regulation

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

3. **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 statement below:)

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

[(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 Prospectus under Article 16 of the Prospectus Directive.)]

4. **[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.]

5. **OPERATIONAL INFORMATION**

ISIN: [•]

Common Code: [•]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [•]/[Not Applicable]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. 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.]

[No. 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.]

6. **DISTRIBUTION**

(i) Method of Distribution: [Syndicated/Non-syndicated]

(ii) If syndicated:

(A) Names of Dealers [Not Applicable/[•]]

(B) Stabilisation Manager(s), if any: [Not Applicable/[•]]

(iii) If non-syndicated, name of Dealer: [Not Applicable/[•]]

(iv) U.S. Selling Restrictions: Reg S Compliance Category 2; [TEFRA C/TEFRA D]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "Accountholder") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's 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 Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the bearer of the Global Note.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day : In the case of a Global Note , shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre (as may be specified in the relevant Final Terms).

Exercise of put option: In order to exercise the option contained in Condition 10(h) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) 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 20 (*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 depository 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.

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.

DESCRIPTION OF BANCO SABADELL

Incorporation and status

Banco de Sabadell, S.A. ("**Banco Sabadell**", the "**Bank**" or the "**Issuer**") and its subsidiaries compose the Sabadell Group (the "**Sabadell Group**" or the "**Group**"). The Issuer was incorporated on 31 December 1881 in the town of Sabadell, near Barcelona for an unlimited term and conducts its business under the commercial name "Banco Sabadell".

The Issuer has its registered office in the city of Sabadell, at Plaça de Sant Roc, nº 20, PC 08201 (Barcelona, Spain) (contact telephone number 0034 902 323 555) and is registered with the Commercial Registry of Barcelona (Spain) under volume 20,093, book 1 and sheet B-1561.

The Issuer is a Spanish company with legal status as a public limited company (*sociedad anónima*) and is governed by the Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*). The Issuer is subject to special legislation applicable to credit entities in general; the supervision, control and regulation of the European Central Bank (the "**ECB**"); and, as a listed company, the regulatory oversight of the Spanish Securities Market Commission (the "**CNMV**").

History and development of the Issuer

Main Recent Acquisitions and Divestitures

The Sabadell Group has grown substantially since 2012 through a series of small and large acquisitions which have allowed the Group to expand geographically mainly throughout Spain, the United Kingdom and, to a lesser extent, in Florida. Below is a description of the Group's main recent acquisitions and divestitures:

Purchase of ex-UKAR credit assets (closed December 2015)

On 7 December 2015, TSB acquired a portfolio of credit assets, comprising mainly of mortgage assets, valued at £3,006 million which had previously been managed by the UK Assets Resolution ("**UKAR**"). The price paid, £3,041 million, is considered to reflect the fair value of the assets as the price paid was determined at a public auction and the price of all factors influencing said fair value such as, among others, credit and conduct risk, were accounted for.

Acquisition of shareholding in GNB Sudameris (closed October 2015)

On 1 October 2015, Banco Sabadell purchased 4.99 per cent. of the Colombian bank GNB Sudameris, at a cost of \$50 million. The major shareholder of the GNB Sudameris is Gilex Holding, B.V., a subsidiary of Starmites Corporation, S.A.R.L., a company owned by the Gilinski family. The acquisition was complemented by a strategic commercial cooperation agreement entered into between Banco Sabadell as buyer and Glenoaks Investments S.A. as seller, with a view to taking advantage of the commercial opportunities in markets with high growth potential, such as Colombia, Peru and Paraguay.

Acquisition of TSB: Acquisition process (closed August 2015)

The European Commission declared that the financial support measures provided by the UK Treasury to Lloyds Banking Group plc ("**Lloyds**") in 2008 and 2009 constituted unauthorised State aid in accordance with European regulations. As a result, the European Commission sanctioned a restructuring plan submitted by the UK which, among other things, required that Lloyds would have to part with a business unit that provided commercial banking services in the United Kingdom which would have to meet certain conditions in order to promote competition within the sector.

This divestment obligation would have to take place before a specified date (31 December 2015, which could be extended to the end of 2016 depending on the extent to which Lloyds had decreased its shareholding in TSB).

With a view to benefitting from a banking licence already held by Lloyds, in September 2013, Lloyds decided to transfer the entirety of its divested equity to one of its vehicle companies, TSB Bank plc

(whose parent company is TSB under a new brand and operating as a new credit institution for commercial banking).

After analysing various divestment options with respect to TSB, Lloyds decided to launch a public offering in June 2014, and TSB's ordinary shares were quoted and admitted to trading in the London Stock Exchange in June 2014. At that point, Lloyds held a 50 per cent. stake in TSB.

It was in the context of this need for divestment that, on 19 March 2015, the Board of Directors of Banco Sabadell approved the presentation of a takeover bid to acquire 100 per cent. of shares in TSB at a price of 340 pence per share, paid in cash, to each of TSB's shareholders. In accordance with the terms of its public offering, Banco Sabadell initially acquired approximately 9.99 per cent. of TSB's share capital on 24 March 2015 from Lloyds. The latter made an irrevocable commitment to subsequently sell the remaining TSB shares which it held (i.e., 50.01 per cent. stake) to Sabadell on the same terms as the initial acquisition.

The terms and conditions of the public offering, including those of the acceptance of the bid, were set out in the offer published and distributed to TSB shareholders on 17 April 2015.

The takeover bid was supported by TSB's Board of Directors and was recommended to the shareholders at the time. It was subject to the acceptance of a minimum of 75 per cent. of the voting rights in TSB's share capital, such threshold to include the shares already acquired from Lloyds and its irrevocable commitment. Similarly, the acquisition of TSB was also subject to obtaining various authorisations and consent from the Prudential Regulation Authority ("**PRA**") of the Bank of England as well as from other supervisors, including the competition authorities.

On 30 June 2015 the final condition precedent for the acquisition of TSB was met, and this is the date on which the Group considers that it took control of TSB's assets and acquired its liabilities ("*acquisition date*"), as this was the date on which the public offering was declared unconditional in all respects.

On 8 July 2015, following Banco Sabadell's acquisition of more than 90 per cent. of the shares of TSB, the PRA approved the commencement of the compulsory acquisition procedure to acquire ("*squeeze out*") the remaining shares up to 100 per cent. of the share capital of TSB.

On 20 August 2015, the squeeze out procedure was completed, leaving the Sabadell Group with 100 per cent. of TSB's share capital.

With this acquisition, the Sabadell Group has taken a leap forward in its strategy of expanding into other countries, which is one of the pillars of its Triple strategic plan for 2014-2016 (transformation, profitability and internationalisation). Following the TSB acquisition, 22 per cent. of its assets are located outside Spain, compared to the 5 per cent previously. Prior to the acquisition, TSB was the seventh largest retail banking group in the United Kingdom by branch network and with over 21.4 billion pounds in loans, TSB was present in over 600 towns and cities across Britain, had 8,700 employees and 4.7 million customers.

Creation of Banco Sabadell, S.A., Institución de Banca Múltiple (closed January 2015)

On 29 January 2015, Banco Sabadell, S.A. Institución de Banca Múltiple was set up in Mexico. In August of that year it obtained the necessary permits from the local supervisors to commence operations as a commercial bank. On 4 January 2016, after completing the certification procedure of the Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission) ("**CNBV**") and in line with the requirements of the Bank of Mexico, it officially started operating.

Banco Sabadell's operations in Mexico are currently confined to corporate banking and financial services for companies and, in the coming months, will expand to provide personal banking services.

The total investment maintained by the Group in this Bank at 31 December 2015 reached €57,375 million.

Sale of the Bank's unpaid debt management and collection business (closed December 2014)

On 28 July 2014 Banco Sabadell reached an agreement with Lindorff Spain for the sale of its unpaid debt management and collection business for €162 million and entered into a complementary agreement for

the provision of management and collection business services in return for a variable fee for an initial period of 10 years. The agreement provides that the volume of receivables of which management is assigned to Lindorff Spain will comply with certain minimum levels over a transitional period. Subsequently, the volume assigned will depend on the volume of non-performing loans and defaulting debtors and the evolution of the business. This transaction closed in December 2014, after obtaining the relevant authorisations.

Lindorff Spain is the Spanish subsidiary of the Lindorff group, a Norwegian-based group specialising in the provision of debt-related administrative services.

Acquisition of JGB Bank, N.A. (closed July 2014)

On 4 December 2013 the Bank signed an agreement with GNB Holdings Trust for the acquisition, through its subsidiary in Miami, Sabadell United Bank, of JGB Bank, N.A ("**JGB Bank**"). JGB Bank is one of the oldest banks in South Florida, which, as of 4 December 2013, managed assets and loans worth approximately €390 million and €127 million, respectively.

This acquisition completed in July 2014 for a sum of \$49.6 million (equating to approximately €36.4 million). Concurrently with the completion of this acquisition, JGB Bank, was merged into Sabadell United Bank. GNB Holdings Trust's main shareholder was Mr. Jaime Gilinski Bacal, who is also a significant shareholder of the Bank. This acquisition strengthened the position of Sabadell United Bank in Florida.

Acquisition of Lloyd's assets and liabilities in Miami (closed November 2013)

On 29 May 2013, the Bank entered into an agreement with Lloyds TSB Bank plc ("**Lloyds TSB**") pursuant to which it acquired the assets and liabilities that comprise Lloyds TSB's international private and advisory business for private clients in Miami. The transaction included the acquisition of approximately €26 million of assets under management and a loan portfolio of approximately €46 million. The acquisition completed on 1 November 2013. The final consideration paid was approximately €6.3 million.

Acquisition of Banco Gallego (closed October 2013, except with respect to its insurance business)

Following a tender process undertaken by the **FROB** in accordance with the resolution plan of NCG Banco, S.A. (the former parent company of Banco Gallego, S.A. ("**Banco Gallego**")), the Bank entered into an agreement with the FROB and NCG Banco, S.A. on 19 April 2013 for the acquisition of 100 per cent. of Banco Gallego for a nominal price of €1. The closing of this acquisition, which took place on 28 October 2013, was subject to the satisfaction of various conditions, including a €245 million capital increase by Banco Gallego (which was entirely subscribed and paid for by the FROB prior to closing), the receipt of certain regulatory authorisations and a liability management exercise in connection with Banco Gallego's hybrid securities which consisted of the exchange of such securities for, among others, equity instruments of the Bank. In addition, Banco Gallego transferred its real estate troubled assets to the Bank for the Management of Assets proceeding from Restructuring of the Banking System (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*) (SAREB).

Additionally, on 20 February 2014, Banco Sabadell acquired, for a consideration of €28.2 million, a 75 per cent. stake in the share capital of Banco Gallego Vida y Pensiones, S.A. from Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. As a result of this acquisition, the Sabadell Group currently owns 100 per cent. of Banco Gallego Vida y Pensiones, S.A.

Acquisition of Mediterráneo Vida, S.A. de Seguros y Reaseguros (closed July 2013)

On 19 July 2013 the Bank acquired from Aegon its 49.99 per cent. indirect stake, held through CAM-Aegon Holding Financiero, S.L., in Mediterráneo Vida, S.A. de Seguros y Reaseguros ("**Mediterráneo Vida**"). Cash consideration paid for the acquisition was €49.5 million. Since the Group had previously acquired 50.01 per cent. of Mediterráneo Vida in connection with its acquisition of Banco CAM, S.A.U., the Group currently owns 100 per cent. of Mediterráneo Vida.

In March 2014, Mediterráneo Vida entered into a reinsurance agreement with respect to its individual life insurance (risk) portfolio at 31 December 2013 with the Irish reinsurance company Scor Global Life Reinsurance ("**Scor**"), for which the Group received an €32.2 million cash premium. Under this

agreement, the Group transferred the main technical risks associated with the individual life (risk) business (i.e. variances in mortality, absolute disability and portfolio loss rates) to Scor. Although the Group continues to manage the portfolio in accordance with market standards, the management conduct is in line with Scor's policies and instructions. In addition, Scor is responsible for the amounts payable to insured parties. The agreement also provides for an incentive whereby the Group may share in the favourable behaviour of the portfolio after 2025.

In May 2014, as a result of the exclusivity agreement entered into with the Zurich Group, BanSabadell Vida and BanSabadell Pensiones (each of which is jointly equally owned by Banco Sabadell and the Zurich Group) became the exclusive suppliers of life insurance products and pension plans through its branch network in Spain (in detriment to Mediterráneo Vida, which may still distribute employment pension plans) and Mediterráneo Vida's individual pension plan portfolio was transferred to BanSabadell Pensiones.

Acquisition of the Spanish private and retail business of Lloyds (closed June 2013)

On 29 April 2013, Banco Sabadell entered into an agreement with Lloyds TSB pursuant to which the Bank purchased from Lloyds its Spanish private and retail banking business (through the acquisition of all the shares of Lloyds Bank International, S.A.U. and Lloyds Investment España, S.G.I.I.C., S.A.U., Spanish subsidiaries of Lloyds) in exchange for a 1.8 per cent. stake (53,749,680 shares) in Banco Sabadell (with a fair value of €68.5 million). The acquisition, which closed on 8 July 2013, with effect from 30 June 2013, included the business of approximately 53,000 customers, as well as 343 employees. Assets and liabilities transferred to the Bank totalled €1,705 million and €1,352 million, respectively. Lloyds has undertaken not to dispose of these shares prior to 30 April 2015. On 30 June 2013, Banco Sabadell received €1.5 million in cash from Lloyds because of a price adjustment. Additionally, according to the agreement, the Bank may have to pay Lloyds up to €20 million over the next three years because of a profitability adjustment, which is linked to 12-month interest rate trends.

Acquisition of the regional network and business of BMN in Catalonia and Aragon (closed May 2013)

On 18 December 2012, Banco Sabadell entered into an agreement with Banco Mare Nostrum, S.A. ("**BMN**") for the transfer by BMN to Banco Sabadell of certain assets, liabilities and branch network that comprised the banking business of BMN in Catalonia and Aragon (which included 462 branches (443 in Catalonia and 19 in Aragon) and corresponded substantially to the regional network and business of the former Caixa Penedès). This acquisition, which closed on 31 May 2013, comprised the transfer of approximately 900,000 customers, as well as 2,020 employees. The incorporation of the new branches allowed the Bank to double the size of its network in Catalonia.

The assets to be transferred totalled €9,950 million and the liabilities to be transferred totalled €9,613 million according to the 2013 annual accounts. The consideration received for the assignment by BMN amounted to €337 million, consisting of the difference between the assets and liabilities within the scope of the assignment on 28 February 2013.

The above notwithstanding, the scope of assets and liabilities finally transferred to Banco Sabadell was that existing at 31 May 2013 in which the assets and liabilities totalled, respectively, €9,779 million and €9,625 million. Therefore, the consideration for the assignment to be received by BMN amounted to €154 million, which entailed a regularisation in Banco Sabadell's favour of €183 million that was paid by BMN on 31 October 2013.

Acquisition of Banco CAM (closed December 2012)

On 7 December 2011, Banco Sabadell entered into the Banco CAM transaction agreements with the FROB and Spain's Deposit Guarantee Fund for Credit Entities (*Fondo de Garantía de Depósitos de Entidades de Crédito*, "**Deposit Guarantee Fund**") to acquire 100 per cent. of Banco CAM for a nominal sum of €1 together with a protocol of financial support measures for the restructuring of Banco CAM with Banco CAM, the FROB and the Deposit Guarantee Fund (together with the protocol, the "**Banco CAM transaction agreements**"). At the same time, Banco CAM's restructuring plan (the "**Banco CAM restructuring plan**") was submitted to the relevant Spanish financial authorities and the EU competition authorities.

Once all necessary regulatory approvals were received and the Banco CAM restructuring plan was approved by the EC and the Bank of Spain, the Deposit Guarantee Fund increased Banco CAM's capital by €2,449 million in addition to the €2,800 million it had already disbursed and the Bank purchased 100 per cent. of the shares of Banco CAM for the nominal sum of €1. At the time of the acquisition, the asset protection scheme ("APS") entered into by the Bank with the Deposit Guarantee Fund in relation to the Banco CAM acquisition came into effect with retroactive effect as from 31 July 2011. Under the APS, for a specified portfolio of assets with a gross value of €24,644 million as of 31 July 2011 (€19,117 million of customer loans, €4,663 million of real estate assets, €504 million of equity investments and €360 million of written-off assets) the Deposit Guarantee Fund agreed to assume 80 per cent. of all losses on such a portfolio for a period of ten years (expiring on 21 July 2021), once provisions made in respect of those assets have been fully applied, which at such date amounted to €3,882 million.

In conjunction with the acquisition, Banco Sabadell gave an undertaking, as part of the approval process, to carry out an integration plan drawn up by FROB officials. The plan required the closure of 450 branches of the combined undertaking and staff reductions of approximately 2,200 by 31 December 2013. Banco Sabadell acquired Banco CAM on 1 June 2012 and in December 2012 Banco CAM was formally merged by absorption with Banco Sabadell, the integration of the business systems was completed and the new SabadellCAM brand was launched.

Business Overview

Banco Sabadell is the fourth largest privately owned banking group in Spain measured by total assets (based on the 2015 4Q financial reports which are publicly available on Banco Sabadell's website), with total consolidated assets and total net customer loans of €208.6 billion and €146.8 billion, respectively, as of 31 December 2015. Banco de Sabadell, S.A. is the parent company of the Group, which comprised, as at 31 December 2015, of 170 companies that the Sabadell Group fully consolidates. In addition, there were 43 associates.

The Group offers a wide range of banking and financial services, including deposit taking, asset management, personal loans, mortgage lending, short- and medium-term business financing, insurance, brokerage, electronic payment transmission and credit and debit card operations. The primary customers of the Sabadell Group are SMEs and individual clients in Spain. Its total number of customers, as of 31 December 2015, was 11.4 million (6.4 million as of 31 December 2014 and the difference is mainly due to the acquisition of TSB). As of 31 December 2015, the Group operated a total of 2,873 branches (2,204 in Spain). Its retail banking activities are conducted primarily through the Group's branch network. Commercial banking is the primary focus of the Group's business and, as of 31 December 2015, a total of 2,190 branches were mainly focused on commercial banking activities.

The Group's primary source of liquidity is generated from its customer deposits. In addition, the Group has access to a variety of short- and long-term funding sources in both the domestic and international markets as well as from the Eurosystem against eligible collateral. These funding programs provide the Group with a broad range of funding options, products, maturities and investors. Its total available pool of liquidity amounted to €22.2 million as at 31 December 2015.

The Sabadell Group operates in Spain through different brands. During 2015, the Bank has unified the Sabadell Atlántico and SabadellCAM brands to strengthen its image, with "Sabadell" being the flagship brand that operates throughout most of the Spanish market. It also operates under the following brands: SabadellHerrero (commercial banking in Asturias and Leon), SabadellGuipuzcoano (commercial banking in the Basque Country, Navarre and La Rioja), SabadellUrquijo Banca Privada (private banking), SabadellSolbank (for non-resident customers), ActivoBank (serves customers who prefer to do their banking exclusively by telephone or online) and SabadellGallego (commercial banking in Galicia). The brands are supported by a variety of distribution channels, including the Group's extensive branch network, telephone (both fixed line and mobile) banking and internet banking. The Group believes its multi-brand and multi-platform model is supported by one of the most advanced and scalable IT platforms in Spain. The Sabadell Group also believes that its multi-brand, multi-channel market presence increases its appeal to existing and prospective customers and its state-of-the-art IT platform allows the Group to segment its customer base with a high degree of accuracy to best match its products and services to its customers' needs.

For the years ended 31 December 2015 and 2014 the Group's consolidated profit before impairment and other provisions (calculated as operating profit or loss plus impairment losses (net) and provisioning

expense (net)) was €2,863 million and €2,749 million, respectively, and its consolidated profit attributable to the parent company was €708 million and €372 million, respectively.

Sabadell Group's Brands and Business Lines

The Group employs a multi-brand strategy, targeting through each brand a specific customer base and/or geographic segment and building on the goodwill associated with those of its brands that have a long history in the Spanish banking sector. During 2015, the Bank has unified the Sabadell Atlántico and SabadellCAM brands to strengthen its image, with "Sabadell" being the flagship brand that operates throughout most of the Spanish market. The Group's main banking brands are Sabadell, SabadellHerrero, SabadellGuipuzcoano, SabadellUrquiyo Banca Privada, SabadellSolbank, ActivoBank, SabadellGallego and Sabadell United Bank.

From 1 July 2015, the Group is organised in the following business units: Banking business in Spain, Asset Transformation, Banking Business in the UK and Banking Business in America. Banking business in Spain includes the following business units: Commercial Banking, Corporate Banking and Markets and Private Banking. For the year ended 31 December 2014 business units have been presented in accordance with the new structure.

Banking business in Spain

Commercial Banking

Commercial Banking is the largest of the Group's business units. It focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers, businesses and individuals (including private banking, personal banking and mass-market customers), non-residents and occupational groups. Commercial Banking has a high degree of market specialisation and aims to ensure that customers receive a personalised service of the highest quality tailored to their needs, whether from expert staff throughout its extensive multi-brand branch network or via other channels that support the customer relationship and give access to remote banking services.

During the 2015 financial year, the Bank has unified SabadellAtlántico and SabadellCAM brands to enhance its image being "Sabadell," the reference brand operating in most of the Spanish market, except for Asturias and Leon, served by SabadellHerrero brand, the Basque Country, Navarre and La Rioja, served by SabadellGuipuzcoano brand, and Galicia served by SabadellGallego brand. The brand SabadellSolbank gives priority to the needs of the segment of European residents in Spain, through a network of specialised offices which operates only in the Canary Islands, the Balearic Islands and in coastal areas of the south and east of Spain. Finally, ActivoBank focuses its business on customers who operate exclusively through internet or by telephone.

The Commercial Banking unit covers the following four specific business areas: Companies, Businesses and Public Sector; Individuals Banc assurance and Consumer finance.

Companies, Businesses and Public Sector

One of the target core customer segments of the Sabadell Group is SMEs, a sector in which it has a leading position in Spain with a market share of 42.89 per cent. as of 31 December 2015 in terms of number of clients (according to internal estimates). The Group's market share as of 31 December 2015 in large companies was 72.1 per cent. in terms of number of clients (according to internal estimates). For its SME banking, the Group provides day-to-day commercial banking, as well as asset management, electronic invoicing, project finance and other services to meet the specific needs of small- and medium-sized enterprises, which services can also be provided to larger companies. To enhance the services the Group offers its SME customers, it provides multi-products that comprise a variety of financial and non-financial solutions and products that are specially designed for entrepreneurs.

In 2015 the Group launched a new companies' relationship model based in the Companies Commitment Plan (*Plan Compromiso Empresas*). Through it, the Bank has agreed in writing with all its companies' clients to: (i) respond no later than the 7th day following their applications for funding; (ii) maintain the economic conditions of their risk lines; (iii) not change their assigned personal manager; (iv) visit their premises at least once per year; (v) allow them to operate in any office of the Bank; and (vi) accompany the client in its international expansion, all with the goal of making the Bank the main financial provider of its customers.

The Bank's dedication to achieving a high standard of customer care is further demonstrated by having a network of 60 offices around Spain specialising in the management of the large companies sector of its operations.

In an environment of greater economic growth, during 2015 the Bank had as one of its highest priorities the facilitation of companies' access to credit. This is demonstrated by the 3.6 per cent. increase in funding granted to companies relative to the previous year, reaching more than €37,300 million in new funding. The Bank's focus, in line with the commitment covered by the Companies Commitment Plan (*Plan Compromiso Empresas*) remains the facilitation of an increase in the share of investment funds provided to its clients in accordance with their corporate and business needs without compromising the Bank's application of its risks policy with the usual rigor.

During 2014, the Group set up its BStartup programme to support young companies in developing their projects, which includes specialised products and branches for startups, as these companies have different development and financing models to traditional companies. As part of this programme, the Sabadell Group started BStartup 10, an initiative to provide support for 10 technology startups selected each year across Spain in establishing themselves in the market. The attention generated by this programme is noteworthy in the two years since its inception. In 2015, the Group has significantly increased their media appearances (1,085 appearances) and the impact on social networks and active participation in events of entrepreneurship throughout the Spanish territory. In 2015, BStartup organised and/or participated in 121 events. In addition, the financial year closed with a total of 24 co-operation agreements signed with entities that provide support to entrepreneurs throughout Spain and who can prescribe the products and services of the Bank. With regard to the direct generation of business, €161 million euros between assets and liabilities have been managed, an increase of 132 per cent. relative to the previous year.

Individuals

One of the main objectives in 2015 of the individuals segment has been to maintain a high rate of customer acquisition, with special focus on attracting quality, which meant adding 380,000 new individual customers and becoming the main bank for more than 70.3 per cent. of new customers. To achieve this objective, it was key to have a competitive offer with quality products and services, continue to put focus on the reputation and brand image and be one of the most innovative entities in the market, both in terms of product innovation and creating new models of customer relations.

In 2015, the deployment of Active Management was initiated. Active Management is a new model for the integrated management of personal banking customers through remote channels. It is a model adapted to the needs of the Bank's clients, offering a personal manager, with extended hours, which provides an immediate response to the needs of customers remotely.

In terms of products, it is worth mentioning, among others, the launch of the Savings Account 5 (*Cuenta Ahorro 5*), the tax-advantaged Long Term Savings Plan (*Plan de Ahorro a Largo Plazo*), or the launch of the Mortgage Expansion (*Hipoteca Expansión*), or the new Loan Expansion 24+24 (*Préstamo Expansión 24+24*). The result of all these initiatives has produced in an improvement in terms of customer experience.

Commercial activity in the individuals segment has been determined on a client vision that has come through the commercial management focused not on the product but on meeting each customer needs, predominantly, transactional, funding, protection and saving.

Bancassurance

Commercial Banking also includes the Bancassurance business, which provides savings, retirement and protection products, including life insurance (both protection and endowment and cash value products), general insurance (home, motor, health and payment protection insurance and insurance for businesses and retail outlets) and pension plans. During 2014, the Group reorganised its insurance business after completing the incorporation of the insurance businesses acquired in recent years (through the acquisition of CAM, the BMN business in Catalonia and Aragon, Lloyd's business in Spain and Banco Gallego). Chief among the steps taken to reorganise its insurance business was the signing of an exclusivity agreement with the Zurich Group in May 2014. Following the signing of such agreement, BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales (each of which is jointly owned by Banco Sabadell and the Zurich Group) have become the exclusive suppliers of life insurance, pension

plans and general insurance through the Sabadell Group's branch network in Spain. Products are distributed through the Group's branch network. The product offering is designed to meet the needs of each business group and each customer segment, whether individual, business or institutional.

Consumer Finance

The Group's subsidiary Sabadell Consumer specialises in consumer finance by providing point-of-sale finance to purchasers of cars, computer hardware, domestic appliances, health accessories and other products. The Group also has a line of personal loans, which it sells by direct marketing.

The table below summarises the most recent performance of the Commercial Banking unit.

	As of and for the year ended 31 December		Change
	2015	2014	
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	2,142	1,778	20.4
Gross income	2,738	2,338	17.1
Operating margin	1,343	992	35.3
Pre-tax result	700	348	101.1
Other key figures			
Loans and advances to customers	77,708	79,460	(2.2)
Resources	94,053	90,785	3.6

Corporate Banking

Corporate Banking offers a range of products and services to large corporate and financial institutions in Spain and abroad (in 17 other countries), and covers the following business areas: Corporate Banking, Structured Finance, Trade Finance & IFI.

Corporate Banking

The Corporate Banking business, which is the most important segment within the Sabadell Group's Corporate Banking unit with offices in Madrid, Barcelona, London, Paris, Miami, Mexico and Casablanca, provides domestic and international products and services to large companies and enterprises. However, it also provides services to smaller businesses that belong to groups whose parent companies fall within the Group's Corporate Banking business, as well as to individuals who own companies that are serviced by its Corporate Banking business. The Group provides medium- and long-term financing, receivables financing, electronic banking and payment services as well as financial services, such as advisory and wealth management services and real estate business services.

The Sabadell Group has created teams of "global bankers" specialising in individual business sectors and establishing a direct presence in its customers' target markets, with the goal that its large corporate customers benefit from the best possible banking experience. The model is based on establishing close relationships with its customers to offer comprehensive solutions tailored to their operational needs. High standards of efficiency and service and expedited day-to-day middle office processes are also key elements of the model.

Structured Finance

The Structured Finance business, with offices in Madrid, Barcelona, Bilbao, Alicante, Miami, New York and Mexico and over 20 years of experience, provides origination and structuring of long-term financing packages, mainly by participating in loan syndications along with other banks. Financing transactions are offered for project finance, based on the predictability of financial modelling (energy and infrastructure development), corporate finance (capital investment, restructuring, acquisitions), or export finance and

for the financing of projects outside Spain, where loans may be backed by government guarantees or covered by private insurers.

Trade Finance & IFI

In Trade Finance & International Financial Institutions, the business model rests on two central mainstays: the optimal support to companies clients in their internationalisation process in co-ordination with the network of branches, subsidiaries and entities participated by the Group abroad, thus facilitating also operations of customers in other countries and commercial management of the "Banks" segment customers with which Banco Sabadell has agreements (more than 3,000 financial institutions worldwide) that complement the ability to ensure maximum global coverage to Group customers.

The table below summarises the most recent performance of the Corporate Banking unit.

	As of and for the year ended 31 December		Change
	2015	2014	
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	164	162	1.0
Gross income	197	199	(1.0)
Operating margin	167	172	(2.9)
Pre-tax result	71	70	0.8
Other key figures			
Loans and advances to customers	11,702	10,798	8.4
Resources	6,191	5,177	19.6

Markets and Private Banking

This unit offers savings and investment management services to the Group's customers, including the analysis of investment options, market trading, active wealth management and custody services. The Markets and Private Banking unit comprises the following businesses, which are managed on an integrated basis: SabadellUrquijo Private Banking; Investment Management; Treasury and Capital Markets; and Securities and Custodian Services.

SabadellUrquijo Private Banking has continued during 2015 to contribute value through personalised advisory services and the offering of specific private banking products, such as mutual funds, discretionary management portfolios or SICAVs has allowed SabadellUrquijo to achieve the best rankings in private banking institutions. The commercial activity has been unequivocally tied to the exhaustive analysis of the customers' risk profile and the adaptation of the products and services offered.

Investment Management: At 2015 year-end, investment funds under management of Spanish law amounted to €3,088.0 million, 31.5 per cent. above 2014 year-end, and significantly more than the increase in the sector, which has been 12.5 per cent. With this volume of managed equity, the Sabadell Group has achieved an investment fund share of nearly 6 per cent., and its managing entity, Sabadell Inversión, has remained as the fourth largest investment fund manager in Spain.

Treasury and Capital Markets: In 2015, the Bank has increased its activity in foreign currency operations with customers, increasing the accumulated income by 30.0 per cent. compared with the previous year, and the trading activities and operations have been directed towards the management of liquidity and the proactiveness in the management of the fixed-income trading portfolio, as well as the operations in currencies arising from the bank's customer orders and instructions. In terms of capital markets activity, the Bank continues to identify potential operations and receive mandates, both from issuers and from institutional clients who channel their financing and investment needs through the Bank.

Securities and Custodian Services: The Direction of Securities and Custodian Services carry out the intermediation functions of Banco Sabadell in its capacity as a member of the equity markets, consisting

of processing and executing orders for securities trading directly through the trading desk. It is liable as "Product Manager" of the equity transactions at Group level. It also creates and leads the product offering custody services. 2015 has been characterised by significant market movements, mainly on a national scale. Political and economic uncertainties have had a negative impact on volumes, mainly in the second quarter of the year. However, 2015 has seen a strong growth in market shares, reaching the top ranking among market members, with a market share in excess of 14 per cent. In July it reached a record market share of 20.68 per cent.

The table below summarises the most recent performance of Markets and Private Banking unit.

	As of and for the year ended 31 December		
	2015	2014	Change
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	45	51	(12.2)
Gross income	235	197	19.2
Operating margin	131	101	29.1
Pre-tax result	123	102	20.2
Other key figures			
Loans and advances to customers	981	1,029	(4.6)
Resources	16,854	16,896	(0.2)
Securities	6,231	7,326	(15.0)

Asset Transformation

The Asset Transformation unit comprehensively manages the Group's non-performing exposure and real estate exposure. It also establishes and implements the strategy for real estate subsidiaries, among which Solvia is particularly notable. In terms of non-performing exposure and real estate exposure, the unit focuses on developing the asset transformation strategy and integrating a global view of the Group's balance sheet of real estate assets in order to maximise their value.

In 2015, the development of the asset transformation strategy established in previous years has been further implemented. Its main objective is the optimisation of value, either through management, to maximise the possible changes in value, or through divestment, in the event that this is the best alternative.

With regards to debt recovery assets in default status, it is particularly important to note that in 2015 Banco Sabadell has continued to proactively manage default situations of mortgage debts for customers' housing, seeking solutions that avoid legal proceedings and not carrying out, under any circumstances, forceful evictions.

Following the acquisition of one of SAREB's real estate asset portfolios in November 2014, Solvia has been the first "servicer" to complete the migration and service transfer process of portfolios acquired through SAREB, positioning itself as one of the main management platforms in Spain in terms of the volume of assets managed.

The table below shows the most recent information about its Asset Transformation unit.

	As of and for the year ended 31 December		
	2015	2014	Change
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	(45)	(11)	300.0

Gross income	61	3	1,721.1
Operating margin	(82)	(132)	(38.3)
Pre-tax result	(844)	(997)	(15.4)
Other key figures			
Loans and advances to customers	8,413	12,394	(32.1)
Real-estate portfolio (gross)	9,234	8,848	4.4
Resources	301	484	(37.7)

Banking business in the United Kingdom

TSB is focused on the retail business in the United Kingdom. As of 31 December 2015, TSB had approximately 4.8 million of clients. TSB holds a multichannel national distribution model, including 614 offices as of 31 December 2015 with coverage in England, Scotland and Wales. It offers a wide range of products, including personal accounts, saving products, mortgages, loans, credit cards, credits to corporates and insurance products. TSB has 8,224 employees and is a challenger bank for the future growth of Banco Sabadell in the United Kingdom. TSB has a clear strategy vis-a-vis retail clients and small companies with a very well defined products spectrum.

The Bank's business in United Kingdom corresponds to TSB given that the Group controls the TSB Banking Group since 30 June 2015 there are only 6 months of results.

The business also includes the "mortgage enhancement" which is a separate set of mortgages allocated to TSB as part of the restructuring of Lloyds, as well as ex-UKAR assets. Ex-UKAR assets are a set of mortgages that were managed by the British government and which were purchased during an acquisition process effective from 7 December 2015. See "*Main Recent Acquisitions and Divestitures*" above.

Sources of financing are mainly comprised of the increase in customer deposits and the success in their diversification, with a launch of the first securitisation on the market.

These funds are mainly used to increase the loans and advances portfolio, following a successful launch of a mortgage mediation platform and the acquisition of UKAR mortgages, as explained previously.

The table below shows the most recent information about its banking business in United Kingdom.

	As of and for the year ended 31 December		Change
	2015	2014	
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	540	-	-
Gross income	615	-	-
Operating margin	121	-	-
Pre-tax result	62	-	-
Other key figures			
Loans and advances to customers	36,062	-	-
Resources	40,699	-	-

Banking business in America

Banco Sabadell's banking operations in America provides services through one full-service branch and a number of representative offices, subsidiaries and associates in Miami. BS America is managed from Miami, where the main branch has been located since 1993. The Banco Sabadell banking business in America also includes Sabadell United Bank and Sabadell Securities, as well as representative offices in Mexico, Venezuela and the Dominican Republic. In 2012, the bank opened a representative office in New

York from which it manages a large part of the structured financing business and in 2015, new representative offices have been opened in Colombia and Peru to strengthen the corporate banking and structured financing business.

In 2015, the Bank has continued with its consolidation project of domestic banking in Florida through its subsidiary Sabadell United Bank, strengthening its associate banking business and improvement programmes for operating efficiency.

The table below shows the most recent information about its banking business in America.

	As of and for the year ended 31 December		Change
	2015	2014	
	<i>(in millions of euros)</i>		<i>(%)</i>
Net interest income	216	148	45.9
Gross income	245	177	38.3
Operating margin	102	66	56.1
Pre-tax result	81	49	66.5
Other key figures			
Loans and advances to customers	7,374	4,942	49.2
Resources	6,769	5,478	23.6

Other Businesses

Mexico

On 22 April 2014, Sabadell Capital, Sociedad Anónima de Capital Variable, Sociedad Financiera de Objeto Múltiple (SOFOM), Entidad No Regulada ("**Sabadell Capital**") was incorporated in Mexico. Its shares are 100 per cent. owned by the Group. Sabadell Capital's activities will focus on corporate banking and structured financing in Mexican pesos and U.S. dollars of energy projects, infrastructures and other sectors such as tourism, foreign trade and public administration. The incorporation of Sabadell Capital is the first step of an internationalisation project for the creation of a multiple banking institution in Mexico in the medium term.

On 29 January 2015, Banco Sabadell, S.A., Institución de Banca Múltiple was incorporated in Mexico and during the month of August of the same year it obtained the relevant permits from the local regulators to start the commercial banking operating business. On 4 January 2016, following the compliance with the certification procedure of the CNBV and with the requirements of the Bank of Mexico, Banco Sabadell, S.A., Institución de Banca Múltiple officially started its operations.

The new Banco Sabadell in Mexico will perform corporate and companies banking transactions and in the coming months will commence offering services in the private banking sector.

BancSabadell d'Andorra

BancSabadell d'Andorra was set up in the Principality of Andorra in 2000. Its business falls into two well-defined areas: private banking and commercial banking. The Group holds a majority interest of 50.97 per cent. in the bank. The rest of the share capital is spread among a large number of minority shareholders. It remains the only bank in Andorra, which has a major bank as a key shareholder, and this, combined with the sizeable number of private Andorran shareholders, clearly differentiates BancSabadell d'Andorra from its competitors in the principality. The bank's target customers are medium and high-income individuals and larger companies operating in the principality.

Branches and Distribution Channels

The Sabadell Group's extensive branch network provides the foundation for its Commercial Banking, Corporate Banking and Markets and Private Banking businesses. As of 31 December 2015, it had a total of 2,873 branches, 2,204 branches located throughout Spain (compared with 2,267 and 2,370 branches as of 31 December 2014 and 2013, respectively) and 669 branches comprising the international network. The Group continually evaluates its branch network, opening new branches only where it believes that it will be profitable on a stand-alone basis, and closing, consolidating or relocating branches to maximize efficiency and profitability. The table below sets out the distribution of its banking and private banking branches in Spain by brand as of 31 December 2015 and 2014, respectively, reflecting the Group's most recent acquisitions:

Brand	Number of Branches 31 December	
	2015	2014
SabadellAtlantico	1,647	1,204
SabadellCAM	—	503
SabadellHerrero	178	178
SabadellGuipuzcoano	131	131
SabadellSolbank	105	108
Sabadell/Lloyds Bank	—	—
Sabadell Gallego	129	129
BancoGallego	—	—
SabadellUrquijo	12	12
ActivoBank	2	2
Total (Spain)	2,204	2,267

Approximately 61 branches closed during 2015 (compared to 100 branches closed during 2014) as part of the implementation of the Group's strategy and to achieve its targeted cost synergies.

The geographical distribution of these branches across various autonomous regions and autonomous cities of Spain as of 31 December 2015 and 2014, respectively, was as follows:

Autonomous Region	Number of Branches 31 December	
	2015	2014
Andalusia	143	142
Aragon	38	39
Principality of Asturias	146	146
Balearic Islands	65	65
Basque Country	107	107
Canary Islands	30	31
Cantabria	6	6
Castile-La Mancha	23	23
Castile and León	64	64
Catalonia	674	723
Extremadura	6	6
Ceuta	1	1
Galicia	129	129

La Rioja	8	8
Madrid	209	216
Melilla	1	1
Murcia	148	149
Navarre	19	19
Valencian Community	387	392
Total (Spain)	2,204	2,267

In addition, the Group's international network comprised a further 669 branches as of 31 December 2015 (53 offices as of 31 December 2014). As of 31 December 2015, the Group had 614 branches of TSB and 27 branches of Sabadell United Bank, all of them in the Miami area (27 branches as of 31 December 2014).

During 2015, following the path set in the Business Plan 2014-2016, Banco Sabadell has continued to invest much effort in the digital transformation of the Bank. The transformation process involves a major cultural change in both customer relations and internally, within the entity. Change must begin within the bank itself, for what have been named among employees "Ambassadors of Change" to promote the necessary cultural change.

A new client relationship model has been created, more evolved and with a larger number of access channels. The concept of "just once channel" has been extended. The office has ceased to be the nerve centre of operations in order to open up a wide range of points of contact, where the customer is the key milestone of the process. This requires simple processes and a change in the distribution model, with multi-location offices, hub & spoke and a new active management model. It is a commercial transformation fully aligned with the digital transformation.

In 2015 the domestic effort has been concentrated on developing new capabilities for remote engagement ("**Instant Selling**"), implementing digital signatures in particular and developing the "Sabadell wallet". These services are being launched for all customer segments of the Bank.

Nearly 40 per cent. of active customers access the Bank's services digitally, 85 per cent. of transactions are made operational through digital channels and 15 per cent. of customers have mobile as the main access channel. The percentage of customers with distance banking contracts has grown this year from 62 per cent. to 69 per cent.

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

ATMs. As of 31 December 2015, the Group had 3,290 self-service cash machines 2,893 in branches and 397 remote or non-branch ATMs. Its ATM network comprises a significant portion of its customer transactions, and 91.2 per cent. of all cash withdrawals of less than €500 were made from ATMs in 2015. The Group also had, as of that date, 383 mini cash machines, which are solely for updating bankbooks.

The Group has continued its efforts to ensure consistent maximum operational availability of its ATMs, including through adjustments to the monitoring systems that trigger warning signals and remedial actions in the event of a loss of communication. Measures were taken to ensure that machines are able to dispense cash at all times without service interruptions or delays. Improvements have been made to the user help screens for the most frequent types of transaction and five new screen languages have been added.

Internet Banking. At the end of 2015 more than 3 million individual customers and 700 thousand companies had enrolled on the Group's online banking service BS Online. A total of 1,523 thousand transactions were performed online, which represents an annual increase of 14 per cent. Increased usage of the Group's online services means that more than 85 per cent. of all transactions were made online in 2015.

Mobile Banking. The Group has experienced significant growth in number of users of its mobile banking service, "*Sabadell Móvil*", since its launch in 2010. By the end of 2015, 1.3 million of internet banking

users accessed the service through their mobile phones. By the end of 2015, the Group had a total of 1.2 million active users, an increase of 20 per cent. compared to 2014.

Direct Branch. The Group received and handled over 2,294,900 enquiries through its telephone live channel throughout 2015, 7 per cent. less than in 2014. The telephone helpline achieved a service level (calls answered as a proportion of calls received) of 95.84 per cent. and a response rate (calls answered in less than 20 seconds) of 80.21 per cent.

E-mail. In 2015, the Group received over 464,943 enquiries by e-mail, 13 per cent. more than 2014 with a service level (e-mails answered as a proportion of e-mails received) of 91.83 per cent.

Online chat. Throughout 2015, the Group received over 37,467 enquiries through online chat, 117 per cent. more than in 2014. In 2014 this channel was only available on the webpage of SabadellCAM and in September 2015 the chat was also introduced on Banco Sabadell's webpage. Service level (chats answered as a proportion of chats received) was 85.05 per cent.

Social Media. The Group maintains an active presence on social networks not only to increase its contact and service touch points with customers but also to publish content related to innovation and entrepreneurship, marketing campaigns, corporate news and its online and mobile banking services. Some of this content has had a remarkable impact on social networks. During 2015, Banco Sabadell continued to expand its presence reaching 200,000 followers on social media (Twitter, Facebook, YouTube, LinkedIn and Google +) as of 31 December 2015 (134,000 as of 31 December 2014). The Group believes these numbers reflect its commitment to these channels as a way to communicate and interact with its clients.

Major Shareholders and Share Capital

As of 30 March 2016, Banco Sabadell's issued share capital of €679,905,624.00 was comprised of 5,439,244,992 shares of a single series and class, with a nominal value per ordinary share of €0.125. There are no limits on the transferability of the Bank's shares. However, Articles 16 and 18 of Law 10/2014 require that clearance be obtained from the European Central Bank for any proposed purchase of shares in a bank amounting to at least 10 per cent. of its share capital, or when reaching certain thresholds above the 10 per cent. level. The decision-making authority, formerly attributed to the Bank of Spain, now corresponds to the ECB by virtue of Regulation No. 1024/2013. Furthermore, the acquisition or transfer of voting shares in listed companies, as a result of which the percentage of voting rights belonging to the acquirer reaches or falls below 3 per cent. or when reaching or falling below certain thresholds above the 3 per cent. level, must be notified to the CNMV.

The following table sets forth the information available to then Bank concerning the ownership of the Bank' shares by major shareholders, based on the current share capital of the Bank as of 30 March 2016, composed of 5,439,244,992 shares.

Name of Shareholder	Direct Ownership	Indirect Ownership	Total Ownership ⁽¹⁾	Number of Shares
	(% of total voting rights)			
Jaime Gilinski Bacal	—	7.49%	7.49%	407,399,200
Winthrop Securities Limited	—	3.08%	3.08%	167,759,777
BlackRock, Inc	—	3.09%	3.09%	168,305,600

Agreement Among Shareholders

In accordance with Article 531 of the Spanish Companies Act, the Bank is required to be notified of shareholders' agreements affecting its shares.

Based on information provided to the Bank by shareholders, Banco Sabadell has knowledge of a shareholders agreement dated 27 July 2006 entered into between each of Héctor María Colonques Moreno, Miguel Bósser Rovira, José Oliu Creus, Isak Andic Ermay, José Manuel Lara Bosch and Joaquín Folch-Rusiñol Corachán. This shareholders' agreement, contains, amongst other things, an undertaking

from each of the above-mentioned individuals not to sell, transfer, assign or encumber the ownership of their respective shares in the Bank or their related rights, without granting a right of first refusal to each of the other shareholders over the shares to be transferred. This agreement has an initial term of 10 years and can be tacitly renewed for additional 5-year periods. As of 31 December 2015, the parties to the above-mentioned shareholders' agreement collectively held a 0.482 per cent. stake in and of the voting rights of the Bank.

Treasury Stock

As of 30 March 2016 the Bank holds directly 106,648,651 of its shares as treasury stock, which represents 1.96 per cent. of the total share capital.

Directors and Management

Composition of the Board

The Board of Directors of Banco Sabadell is currently comprised of 17 members. The business address for each member of its Board of Directors listed below is Plaça de Sant Roc, n° 20, PC 08201, Sabadell (Barcelona), Spain.

The following table sets forth, as of the date of this Base Prospectus, the names of the members of the Board of Directors, their current positions in the Board and their principal positions in the following companies belonging to the Group or at entities with the same, similar or complementary activity that constitutes the corporate object of the Group.

Name of the Director	Current position in the Board	Company belonging to the Group	Position in the Company belonging to the Group
José Oliu Creus	Chairman	Aurica XXI, S.C.R. de Régimen Simplificado, S.A.	Chairman
		BanSabadell Holding, S.L., Sociedad Unipersonal	Chairman
		BanSabadell Inversió Desenvolupament, S.A.U. Sinia Renovables, S.C.R. de Régimen Simplificado, S.A.U.	Chairman Chairman
José Javier Echenique Landiribar	Deputy-Chairman 2	—	—
Jaime Guardiola Romojaro	CEO	Aurica XXI, S.C.R. de Régimen Simplificado, S.A. BanSabadell Inversió Desenvolupament, S.A.U. Banco Sabadell, S.A. I.B.M. (Mexico) Sinia Renovables, S.C.R. de Régimen Simplificado, S.A.U.	Director Director Chairman Director
Aurora Catá Sala	Director	—	—
Héctor María Colonques Moreno	Director	—	—
Joaquín Folch-Rusiñol Corachán (3)	Director	—	—
M. Teresa Garcia-Milà Lloveras	Director	—	—
José Manuel Lara García	Director	—	—
Joan Llonch Andreu	Director	BancSabadell d'Andorra, S.A. BanSabadell Holding, S.L.U.	Director Director

Name of the Director	Current position in the Board	Company belonging to the Group	Position in the Company belonging to the Group
		Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Vice-Chairman
David Martínez Guzmán (1)	Director	Fintech Advisory Limited Fintech Advisory, Inc	Director Director
José Manuel Martínez Martínez	Director	—	—
José Ramón Martínez Sufrategui	Director	—	—
Antonio Vítor Martins Monteiro (2)	Director	Banco Comercial Português, S.A.	Chairman
José Luis Negro Rodríguez	Director	BanSabadell Financiación, E.F.C., S.A. BanSabadell Holding, S.L.U.	Chairman Director
David Vegara Figueras	Director	—	—
Miguel Roca I Junyent	Secretary	—	—
María José García Beato	Deputy-Secretary (non-director)	Aurica XXI, S.C.R. de Régimen Simplificado, S.A. BanSabadell Holding, S.L.U. BanSabadell Inversió Desenvolupament, S.A.U. Emisores Españoles Sabadell United Bank, National Association Sinia Renovables, S.C.R. de Régimen Simplificado, S.A.	Secretary non-Director Vice-Secretary of the Board of Directors Secretary non-Director Representative of a director (legal entity) Secretary non-Director Secretary non-Director

Notes:

- (1) Proprietary director representing the company Fintech Investment Ltd.
- (2) Proprietary director appointed at the proposal of Banco Comercial Português, S.A.
- (3) External director in accordance with Article 8.4 of Order ECC/461/2013, of 20 March.

Corporate Governance

The Bank's Board of Directors (the "**Board**") has implemented a defined and transparent set of rules and regulations for corporate governance, which is compliant with all applicable Spanish corporate governance standards. As of the date of this Base Prospectus, the majority of Board members, 12 out of 15 are non-executive directors, including nine independent directors. The Board has delegated some of its powers to the following committees, in compliance with best practices.

The composition of these committees as of the date hereof is shown in the table below. The business address for each member of the committees listed below who are not also members of the Board of Directors is Calle Sena, 12, Parque de Actividades Económicas Can Sant Joan, PC 08173, Sant Cugat del Vallès, Barcelona, Spain.

Position	Executive Committee	Audit and Control Committee	Appointments Committee	Remuneration Committee	Risk Control Committee
Chairman	José Oliu Creus	M. Teresa García-Milà Lloveras	Héctor María Colónques Moreno	Aurora Catá Sala	José Manuel Martínez Martínez

Member	José Javier Echenique Landiribar	Joan Llonch Andreu	Aurora Catá Sala	Héctor María Colonques Moreno	Joan Llonch Andreu
Member	Jaime Guardiola Romojaro	José Ramón Martínez Sufrategui	José Javier Echenique Landiribar	José Javier Echenique Landiribar	M. Teresa Garcia-Milà Lloveras
Member	José Manuel Martínez Martínez	—	Joaquín Folch-Rusiñol Corachán	Joaquín Folch-Rusiñol Corachán	David Vegara Figueras
Member	José Luis Negro Rodríguez	—	—	—	—
Member	David Vegara Figueras	—	—	—	—
Secretary	María José García Beato(*)	Miquel Roca i Junyent	Miquel Roca i Junyent(*)	María José García Beato(*)	María José García Beato(*)
Number of meetings held in 2015	35	7	6	6	8

(*) Non-director

Executive Committee

The day-to-day management of the Bank is carried out by members of the Executive Committee and its executive officers. The Executive Committee is responsible for the coordination of the Bank's executive management, adapting to this end any resolutions and decisions within the scope of the powers vested in it by the Board of Directors. Decisions adopted by the Executive Committee are reported to the Board of Directors.

Audit and Control Committee

The purpose of the Audit and Control Committee is to review reports from the Internal Audit Department to verify that good banking and accounting practices are being followed in all parts of the organisation, as well as to ensure that general management and other executive functions take suitable measures to address improper conduct or practices by persons in the organisation. It also acts as a watchdog, ensuring that the measures, policies and strategies defined by the Board are duly implemented.

Appointments Committee

The Appointments Committee is responsible for, amongst others, (i) evaluating the profiles of the persons judged most suitable for membership of the different committees and for taking these proposals to the Board, (ii) ensuring compliance with the qualitative composition of the Board of Directors, (iii) submitting the proposals for the appointment and discharge of senior management members and directors and (iv) reporting the basic conditions of the contracts of the executive directors and senior management members.

Remuneration Committee

The Remuneration Committee is responsible for, amongst others: (i) proposing to the board of directors the remuneration policy of the board members, and general managers, (ii) regularly reviewing the remuneration policy, (iii) reporting on the schemes for remuneration in shares and/or options, (iv) ensuring transparent remuneration and (v) ensuring that any potential conflicts of interest do not hinder the independence of external consultants.

Risk Control Committee

The Risk Committee is responsible for: (a) supervising the implementation of the Risk Appetite Framework; (b) determining and making recommendations to the full Board on annual levels of investment in the real estate market, as well as criteria and volumes applicable to all of its different types; (c) reporting to the full Board on the development of its tasks, in accordance with this Article of Association and any other applicable legal or statutory requirements; (d) making quarterly reports to the

full Board on the levels of risks taken, investments carried out and on their evolution, as well as on any possible repercussions on the Group's income caused by fluctuations in interest rates and their adjustment to the VAR approved by the Board; (e) monitoring and detecting any breaches of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect; and (f) reporting to the Remuneration Committee on whether the employees' Remuneration Programs are coherent with the Bank's risk, capital and liquidity levels.

Shareholding Stakes held by the Board of Directors and Senior Management

The tables below shows, as of 30 March 2016, the direct, indirect and represented stakes and voting rights in the share capital of the Bank held by the members of the Board of Directors, individually or jointly with other persons or through controlled legal entities.

Name of Indirect Holder	Direct	Indirect	Total Stake
	<i>(Percentage of Voting Rights)</i>		
José Oliu Creus	0.095%	—	0.095%
José Javier Echenique Landiribar	0.002%	—	0.002%
Jaime Guardiola Romojaro	0.011%	0.005%	0.016%
Aurora Catá Sala	—	—	—
Héctor María Colonques Moreno	0.002%	0.052%	0.054%
Joaquín Folch-Rusiñol Corachán	—	0.290%	0.290%
M. Teresa Garcia-Milà Lloveras	0.001%	—	0.001%
José Manuel Lara García	—	—	—
Joan Llonch Andreu	0.029%	—	0.029%
David Martínez Guzmán	—	—	—
José Manuel Martínez Martínez	0.001%	—	0.001%
José Ramón Martínez Sufrategui	0.029%	0.011%	0.040%
Antonio Vítor Martins Monteiro	—	—	—
José Luis Negro Rodríguez	0.043%	—	0.043%
David Vegara Figueras	0.001%	—	0.001%
Total	0.214%	0.358%	0.572%

Conflicts of Interest

Banco Sabadell believes that no conflicts of interest exist between the duties of its Board of Directors and senior management and their private interests or other duties.

Legal and Other Proceedings

The nature of the business of Banco Sabadell causes the Bank to be involved in routine legal and other proceedings from time to time. As of 31 December 2015 the Group was involved in certain ongoing lawsuits and proceedings arising from the ordinary course of its operations. The Group's legal advisers and directors consider that the outcome of such lawsuits and proceedings will not have a material impact on equity in the years in which they are settled.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be used for the general corporate purpose of Banco Sabadell.

TAXATION

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 12 (Taxation), the Issuer does not assume responsibility for withholding taxes. Prospective investors who are in any doubts as to their position should consult with their own professional advisers.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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 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.

A number of non-EU countries 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.

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Directive from 1 January 2016 in relation to all Member States other than in the case of Austria (and from 1 January 2017, or after 1 October 2016 for certain payments, in relation to Austria), subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates.

Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a transitional withholding system 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 payments 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 EC Council Directive 2003/48/EC.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating

Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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

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

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

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 and Royal Decree-law 9/2015, of 15 July (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March 2007 promulgating the Personal Income Tax Regulations as amended by Royal Decree 633/2015, of 10 July, 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, Law 27/2014, of 27 November, of the Corporate Income Tax Law applicable on the tax periods starting as of 1 January 2015 and Royal Decree 634/2015, of 10 July 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 promulgating the Non-Resident Income Tax Regulations as amended by Royal Decree 633/2015,

of 10 July ("**Non-Resident Income Tax Law**"), along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008, Royal Decree-Law 13/2011 as amended by Law 36/2014, of 26 December 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)***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes would 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 should be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently at the rate of 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

As a general rule, both types of income are subject to a withholding tax on account at the rate of 19 per cent. 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. However, withholding tax at the applicable rate of 19 per cent. may have to be deducted by other entities (such as depositaries, institutions or financial entities) provided that such entities are resident for tax purposes in Spain or have a permanent establishment in Spanish territory.

In any event, individual holders may credit the withholding against their Personal Income Tax liability for the relevant fiscal year.

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.

In accordance with Article 62 of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), from the year 2017, a full exemption on Net Wealth Tax would apply (*bonificación del 100%*).

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. As at the date of this Base Prospectus, the applicable tax rates currently range between 7.65 per cent. and 34 per cent. Relevant factors applied (such as previous net wealth or family relationship among transferor and transferee) determine the final effective tax rate that range, as of the date of this Base Prospectus, between 0 per cent. and 81.6 per cent.

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 would have to 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 25 per cent. for the tax period beginning as from 1 January 2016.

Pursuant to Section 61.s of Royal Decree 634/2015 approving the Spanish corporate income tax regulations (the "**Corporate Tax Regulations**"), there is no obligation to make a withholding on income obtained by taxpayers subject to Spanish CIT (which for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. However, payments of interest and income deriving from the transfer may be subject to withholding tax at the current rate of 19 per cent. if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish General Directorate of Taxes (*Dirección General de Tributos*) (the "**DGT**") dated 27 July 2004 (that is, placement of the Notes outside of Spain in another OECD country and admission to listing of the Notes on an organised market in an OECD country other than Spain). The amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

Notwithstanding the above, 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.

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 tax resident 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 €700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Non-Spanish tax resident individuals who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value are situated. As such, prospective investors should consult their tax advisers.

In accordance with Article 62 of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), from the year 2017, a full exemption on Net Wealth Tax would apply (*bonificación del 100%*).

Non-Spanish resident legal entities are not subject to Wealth Tax.

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

Individuals not tax resident 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*).

Generally, non-Spanish tax resident individuals are subject to the Spanish Inheritance and Gift Tax according to the rules set forth in the Spanish State level law. However, if the deceased or the donee are resident in an EU or European Economic Area Member State, the applicable rules will be those corresponding to the relevant Spanish autonomous regions. As such, prospective investors should consult their tax advisers.

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. **Information about the Notes in Connection with Payments**

The Issuer is 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 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 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, the Issuer may be required to withhold at the applicable rate of 19 per cent. from any payment in respect of the relevant Notes as to which the required information has not been provided. In that event the Issuer will pay such additional amounts as will result in receipt by the

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 issue and paying agency agreement dated 31 March 2016 (the "**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 (...)⁽¹⁾, en nombre y representación de (entidad declarante), con número de identificación fiscal (...)⁽¹⁾ y domicilio en (...) en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number (...)⁽¹⁾, in the name and on behalf of (entity), with tax identification number (...)⁽¹⁾ and address in (...) as (function – mark as applicable):

- (a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.**
 - (a) Management Entity of the Public Debt Market in book entry form.
- (b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.**
 - (b) Entity that manages the clearing and settlement system of securities resident in a foreign country.
- (c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.**
 - (c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.
- (d) Agente de pagos designado por el emisor.**
 - (d) 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 securities
- 2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated)
- 2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados)**
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated).....
- 2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.**
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.**
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.
- 2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.**
- 2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro ena dede

I declare the above in on the.... of of

⁽¹⁾ En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia

⁽¹⁾ In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Goldman Sachs International, Merrill Lynch International, Natixis, Société Générale and UBS Limited (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 31 March 2016 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as "Non-Syndicated" and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as "Syndicated", the obligations of those Dealers to subscribe the relevant Notes will be joint and several and the names and addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilising Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America:

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 certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury Regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons a confirmation of 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."

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

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, or would not, if it was not an authorised person, apply to the Issuer if it was not an authorised person; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Selling Restrictions Addressing Additional Securities Laws

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 consolidated text of the Securities Market Law approved by legislative Royal Decree 4/2015 of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (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. The Notes may not be offered, sold or distributed, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Securities Market Law, as amended and restated, or without complying with all legal and regulatory requirements under Spanish securities laws (including, if applicable, those established by the Fourth Additional Provision of the Securities Market Law). Neither the Notes nor this Base Prospectus have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore this Base Prospectus is not intended for any public offer of the Notes in Spain.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by resolutions of the shareholders and the Board of Directors of the Issuer respectively passed/given on 28 May 2015 and 25 February 2016. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Legal and Arbitration Proceedings

2. Other than as described in section "*Legal and Other Proceedings*" on page 101 of this Base Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer or of the Issuer and its Subsidiaries taken as a whole.

Significant/Material Change

3. Since 31 December 2015 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries taken as a whole, nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries taken as a whole.

Auditors

4. The consolidated annual accounts of the Issuer have been audited without qualification for the years ended 31 December 2014 and 31 December 2015 by PricewaterhouseCoopers Auditores, S.L., of Avda. Diagonal, 640, 08017 Barcelona, España, independent auditors who are members of the *Registro Oficial de Auditores de Cuentas*, as stated in their reports incorporated by reference in this Base Prospectus.

Documents on Display

5. Copies of the following documents (together with English translations thereof (if any)) may be inspected during normal business hours at the offices of the Fiscal Agent at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom, for 12 months from the date of this Base Prospectus:
 - (a) the constitutive documents (*Estatutos*) of the Issuer;
 - (b) the audited consolidated annual accounts of the Issuer for the years ended 31 December 2014 and 31 December 2015;
 - (c) the Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the Dealer Agreement;
 - (f) the Programme Manual (which contains the forms of the Notes in global and definitive form).

Material Contracts

6. There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

Clearing of the Notes

7. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation

to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Issue Price and Yield

8. Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Notes or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

Dealers transacting with the Issuer

9. 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 its 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 or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such 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.

THE ISSUER

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08201 Sabadell
Barcelona
Spain

ARRANGER

Deutsche Bank AG, London Branch

Winchester House
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United Kingdom

DEALERS

Commerzbank Aktiengesellschaft

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London EC2N 2DB
United Kingdom

Goldman Sachs International

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133 Fleet Street
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United Kingdom

Merrill Lynch International

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United Kingdom

Natixis

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France

Société Générale

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UBS Limited

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United Kingdom

FISCAL AGENT AND PAYING AGENT

The Bank of New York Mellon, London Branch
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