BANCO DE SABADELL, S.A.

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

Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities

Issue Price: 100 per cent.

The €750,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 liquidation preference each (the "**Preferred Securities**") are being issued by Banco de Sabadell, S.A. (the "**Bank**", the "**Issuer**" or "**Banco Sabadell**") on 18 May 2017 (the "**Closing Date**"). The Bank and its consolidated subsidiaries are referred to herein as the "**Sabadell Group**" or the "**Group**".

The Preferred Securities will accrue non-cumulative cash distributions ("**Distributions**") as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding 18 May 2022 (the "**First Reset Date**"), at the rate of 6.5 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate per annum, calculated on an annual basis and then converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.414 per cent. per annum (the "**Initial Margin**") and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Preferred Securities (the "**Conditions**")) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrears on 18 February, 18 May, 18 August and 18 November, in each year (each a "**Distribution Payment Date**").

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time as further provided in Condition 3.3. Without prejudice to the right of the Bank to cancel the payments of any Distribution: (a) payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items (as defined in the Conditions) of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (b) if the Competent Authority (as defined in the Conditions) requires the Bank to cancel the relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities; (c) no payments will be made on the Preferred Securities if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations (as defined in the Conditions); and (d) if the Trigger Event (as defined in the Conditions) occurs at any time on or after the Closing Date (as defined in the Conditions), the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.

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

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

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

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

The Preferred Securities are expected, upon issue, to be assigned a B2 rating by Moody's Investors Service, Inc. ("**Moody's**"). Moody's is established in the European Union ("**EU**") and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Each Joint Lead Manager has represented and agreed that the Preferred Securities 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 Preferred Securities may not be offered, sold or distributed, nor may any subsequent resale of Preferred Securities 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. Neither the Preferred Securities nor this Offering Circular have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore this Offering Circular is not intended for any public offer of the Preferred Securities in Spain.

The Preferred Securities are not intended to be sold and should not be sold to retail clients in any jurisdiction of the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time, the "**PI Instrument**") other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 4, and 5 of this Offering Circular for further information.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 8.

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

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

Structuring Advisor and Joint Lead Manager

Deutsche Bank

Joint Lead Managers

Banco Sabadell **Goldman Sachs International** **HSBC**

J.P. Morgan **UBS Investment Bank**

The date of this Offering Circular is 8 May 2017.

IMPORTANT NOTICES

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

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

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or Banco de Sabadell, S.A., Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P Morgan Securities plc and UBS Limited (together, the "**Joint Lead Managers**").

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

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

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

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

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

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

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

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

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

Restrictions on marketing and sales to retail investors

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

In particular, in June 2015, the U.K. FCA published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**"). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "**PI Rules**"):

(i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Preferred Securities, must not be sold to retail clients in the EEA; and

(ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

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

(a) it is not a retail client in any jurisdiction of the EEA (as defined in the PI Rules);

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

(i) sell or offer the Preferred Securities to retail clients in any jurisdiction of the EEA; or

(ii) communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in any jurisdiction of the EEA (in each case within the meaning of the PI Rules),

in any such case other than (i) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Preferred Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Preferred Securities (or such beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

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

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

FINANCIAL INFORMATION

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

- Unless otherwise stated, any reference to loans refers to both loans and advances.
- Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received in the period in which they are due.

- Financial information with respect to subsidiaries may not reflect consolidation adjustments.
- Certain numerical information in this Offering Circular may not sum due to rounding adjustments. In addition, information regarding period-to-period changes is based on figures which have not been rounded; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

STABILISATION

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

TABLE OF CONTENTS

RISK FACTORS

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

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

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

Macroeconomic Risks

Unfavourable global economic conditions, and, in particular, unfavourable economic conditions in Spain, 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 2008 and 2012 and Spain fell into a recession from which it has only recently begun to recover. However, from 2014 the Spanish economy has had a good performance and in the last three years the current account imbalances have been positive: Spain has experienced GDP growths of 1.4 per cent. in 2014, 3.2 per cent. in 2015 and 3.2 per cent. in 2016 (Source: *National Statistics Institute of Spain, Press Notes, 15 September 2015, 14 September 2016 and 30 January 2017*). During the financial crisis, many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced significant difficulties.

Around the world 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 some borrowers (including to other financial institutions). In some countries such as Greece and Cyprus, there have been runs on deposits at several financial institutions. Over this same period, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, and general widening of spreads.

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 1.7 per cent. in 2016 (Source: *Eurostat, News Release 40/2017, GDP and main aggregates estimate for the fourth quarter of 2016, 7 March 2017*), 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, 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.

Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union and the uncertain future relationship of the UK with the EU, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Bank and its Group

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

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

While the longer term effects of the UK EU Referendum are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the UK, continental Europe and the global economy, at least in the short to medium term. For instance, the UK could lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members. A decline in trade could affect the attractiveness of the UK as a global investment centre and, as a result, could have a detrimental impact on UK growth. In particular, London's role as a global financial centre may also decline, particularly if financial institutions shift their operations to continental Europe and the EU financial services passport is not maintained. Among the significant global implications of the UK EU Referendum is the increased uncertainty concerning a potentially more persistent and widespread imposition by central banks of negative interest rate policies. The Bank of Japan, the European Central Bank (the "**ECB**") and several other monetary authorities in Europe have already introduced negative interest rates to address deflationary concerns and to prevent appreciation of their respective currencies.

The UK EU Referendum has also given rise to calls for certain regions within the UK to preserve their place in the EU by separating from the UK, as well as the potential for other EU member states to consider withdrawal. For example, the outcome of the UK EU Referendum was not supported by the majority of voters in Scotland, who voted in favour of remaining in the EU. This has revived the political debate on a second referendum on Scottish independence, creating further uncertainty as to whether such a referendum may be held and as to how the Scottish parliamentary process may impact the negotiations relating to the UK's exit from the EU and its future economic, trading and legal relationship with the EU. As mentioned above, it has also encouraged anti-EU and populist parties in other member states, raising the potential for other countries to seek to conduct referenda with respect to their continuing membership of the EU. On 4 December 2016, voters in Italy rejected constitutional reform proposals put forward by the Italian Prime Minister by way of

referendum (the "**Italian Referendum**"), withdrawing the political support to the Italian Prime Minister and causing his resignation and the Euro to fall to a 20-month low against the US dollar.

Following the results of the UK EU Referendum and the Italian Referendum, the risk of further instability in the Eurozone cannot be excluded, particularly in Germany, which is due to hold elections in 2017. The increase in the political influence of Eurosceptic political parties in these countries, or the perception that any of these political parties could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets.

Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. The major credit rating agencies have downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum.

The UK political developments described above, along with any further changes in government structure and policies, may lead to further market volatility and changes to the fiscal, monetary and regulatory landscape to which the Group is subject and could have a negative adverse effect on its financing availability and terms and, more generally, on its business, financial condition and results of operation.

The Group's loan portfolio and its* overall *business are highly concentrated in Spain and the UK 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 71.8 per cent. and 83.7 per cent. of its income for the years ended 31 December 2016 and 2015, 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 2009-2013 (except for 2010 with a GDP growth of 0.0 per cent). 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 2016) (Source: *National Statistical Institute*) 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.

Recently, the International Monetary Fund has reviewed the expected growth of the Spanish economy and has projected an increase of its GDP by 2.3 per cent. in 2017, while the Bank of Spain expects a growing rate of the GDP of 2.5 per cent. However, 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 the government that has finally been formed on October 2016 is not supported by the majority of the Spanish parliament.

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 2016), the outcome of the UK EU Referendum 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. See "*Exposure to UK political developments, including the outcome of the UK referendum on membership of the European Union and the uncertain future relationship of the UK with the EU, could have a material adverse effect on the business,* financial *condition, results of operations and prospects of the Bank and its Group*".

After the TSB acquisition, the Group has increased its international footprint, mainly in the UK. As of 31 December 2016, the Group's loan exposure to the UK was 24 per cent.

The Group's exposure to inherent risks arising from general macro-economic conditions in the UK, therefore, has increased. During the global financial crisis that started in mid-2008, the UK 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 UK show the good performance of its economy since the UK EU Referendum, the outlook for the UK economy remains somewhat uncertain in the mid-term, with some forecasts predicting the positive 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 UK is particularly exposed to the condition of the UK economy, including house prices, interest rates, levels of unemployment and consequential fluctuations in consumers' disposable income. If these economic indicators and the UK 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, a reduction in the transactions made in Europe, a setback in the current 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 economies which, given the relevance of the Group's loan portfolio in Spain and the UK, would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Finally, the Group is also sensitive to developments in other economies, such as the United States (with a gross income of €159 million as of 31 December 2016) and Mexico (with total investments of €398 million as of 31 December 2016). 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, financial condition, results of operations and prospects

The financial services industry is among the most highly regulated industries in the world. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and 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. The Bank's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the EU and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector (that is expected to continue for the foreseeable future) and a changing regulatory framework which is likely to undergo further significant change. This creates significant uncertainty for the 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 supervisory mechanism ("**SSM**"), and for resolution, with the new single resolution mechanism ("**SRM**"), 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: (i) increase such allowances to recognise further losses; (ii) increase the regulatory risk-weighting of assets; (iii) increase its "combined buffer requirement"; or (iv) increase "Pillar 2" requirements. 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 UK may be determined by TSB's regulators, including the UK Financial Conduct Authority ("**FCA**"), the UK 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 what 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, financial condition, results of operations and prospects.

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

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels. As a Spanish 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 EU regulations on the subject of supervision and solvency of financial entities (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) ("**RD-L 14/2013**"), Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervision y solvencia de entidades de crédito*) ("**Law 10/2014**"), Royal Decree 84/2015, of 13 February, implementing Law 10/2014 (*Real Decreto 84/2015, de 13 de febrero, por el que se desarrolla la Ley 10/2014*) ("**RD 84/2015**"), Bank of Spain Circular 2/2014 of 31 January (*Circular 2/2014, de 31 de enero, del Banco de España*) ("**Bank of Spain Circular 2/2014**") and Bank of Spain Circular 2/2016 of 2 February (Circular 2/2016, de 2 de febrero, del Banco de España) ("**Bank of Spain Circular 2/2016**").

CRD IV requirements adopted in the UK 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 UK, the EU exit process 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 and on an individual basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets ("**RWA**") of which at least 4.5 per cent. must be CET1 (as defined below) capital and at least 6 per cent. must be tier 1 capital (together, the minimum "Pillar 1" capital requirements). In addition to the minimum "Pillar 1" capital requirements, since 1 January 2016 credit institutions must comply with the "combined buffer requirement". The "combined buffer requirement" has introduced five new capital buffers to be satisfied with additional common equity tier 1 ("**CET1**"): (i) the capital conservation buffer, of up to 2.5 per cent. of RWA; (ii) the global systemically important institutions ("**G-SIB**") buffer, of between 1 per cent. and 3.5 per cent. of RWA; (iii) the institution-specific counter-cyclical capital buffer, which may be as much as 2.5 per cent. of RWA (or higher pursuant to the requirements set by the Bank of Spain); (iv) the other systemically important institutions ("**O-SII**") buffer, which may be as much as 2 per cent. of RWA; and (v) the systemic risk buffer to prevent systemic or macro prudential risks of at least 1 per cent. of RWA (to be set by the Bank of Spain).

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

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 the G-SIB buffer. According to the press release published by the Bank of Spain on 7 November 2016, Banco Sabadell is considered an O-SII for 2017 and accordingly, during 2017 it will be required to maintain a phased in O-SII buffer of 0.125 per cent. and in 2019 a full O-SII buffer of 0.25 per cent. In addition, the Bank of Spain agreed on 23 March 2017 to maintain the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. for the second quarter of 2017 (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 and any applicable capital buffer, supervisory authorities may require further "Pillar 2" capital to cover other risks, including those not considered to be fully captured by the minimum "own funds" "Pillar 1" capital requirements under CRD IV or to address macro-prudential considerations. This may result in the imposition of additional capital requirements on the Bank and/or the Group pursuant to this "Pillar 2" framework. Any failure by the Bank and/or the Group to maintain its "Pillar 1" minimum regulatory capital ratios and any "Pillar 2" additional capital could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group's results of operations.

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

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

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

As a result of the most recent SREP carried out by the ECB in 2016, the Bank has been informed by the ECB that it is required to maintain as from 1 January 2017 a CET1 phased-in capital ratio of 7.375 per cent. on a consolidated basis. This CET1 capital ratio of 7.375 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.), the additional own funds requirement under "Pillar 2" (1.5 per cent.), the capital conservation buffer (1.25 per cent.) and the requirement arising from its consideration as O-SII (0.125 per cent.).

As of 31 December 2016, the Bank's CET1 phased-in capital ratio was 12.0 per cent. on a consolidated basis and 14.91 per cent. on an individual 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 capital 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 capital and/or any "combined buffer requirement" could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the "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 as discussed below and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

According to Law 10/2014, those entities failing to meet the "combined buffer requirement" or making a distribution of CET capital to an extent that would decrease its CET1 capital to a level where the "combined buffer requirement" is no longer met will be subject to restrictions on: (i) distributions relating to CET1 capital; (ii) payments in respect of variable remuneration or discretionary pension revenues; and (iii) distributions relating to additional tier 1 capital instruments ("**Discretionary Payments**"), until the Maximum Distributable Amount calculated according to CRD IV (i.e., the firm's "distributable profits", calculated in

accordance with CRD IV, multiplied by a factor dependent on the extent of the shortfall in CET1 capital) (the "**Maximum Distributable Amount**") has been calculated and communicated to the Bank of Spain and thereafter, any such distributions or payments will be subject to such Maximum Distributable Amount for entities (a) not meeting the "combined buffer requirement" or (b) in relation to which the Bank of Spain has adopted any of the measures set forth in Article 68.2 of Law 10/2014 aimed at strengthening own funds or limiting or prohibiting the distribution of dividends.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015 (the "**December 2015 EBA Opinion**"), competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution.

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

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further P2Rs and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015, of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de Recuperación y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión*) ("**Law 11/2015**"), which, together with Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio*) ("**RD 1012/2015**"), has implemented Directive 2014/59/EU of 15 May establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**") into Spanish law, which could have a material adverse effect on the Group's business and operations.

In addition to the above, the CRR also includes a requirement for credit institutions to calculate a leverage ratio, report it to their supervisors and to disclose it publicly from 1 January 2015 onwards. More precisely, Article 429 of the CRR requires institutions to calculate their leverage ratio in accordance with the methodology laid down in that article. At its meeting of 12 January 2014, the oversight body of the Basel Committee on Banking Supervision ("**BCBS**") endorsed the definition of the leverage ratio set forth in the CRD IV. On 11 January 2016, the BCBS issued a press release informing the public about the agreement reached by its oversight body, the Group of Governors and Heads of Supervision ("**GHOS**") setting an indicative benchmark consisting of 3 per cent. of leverage exposures, which must be met with Tier 1 capital. The CRR does not currently contain a requirement for institutions to have a capital requirement based on the leverage ratio though the European Commission's Proposals (as defined below) amending the CRR contain a binding 3 per cent. Tier 1 capital leverage ratio requirement, which would be applicable (subject to limited exceptions) to all institutions subject to the CRD IV from 1 January 2018.

In addition to the minimum capital requirements under CRD IV, the BRRD regime prescribes that banks meet, at all times, a minimum requirement for own funds and eligible liabilities (known as "**MREL**"). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions). The MREL requirement came into force on 1 January 2016 but no

formal requirements have been communicated yet by the resolution authority and therefore, the composition of eligible liabilities remains an open question. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs.

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 RWA as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage exposures as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

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

On 23 November 2016, the European Commission published among other a proposal for a European Directive amending CRR, the CRD IV Directive and the BRRD and a proposal for a European Regulation amending Regulation (EU) No. 806/2014 which was passed on 15 July 2014 and became effective from 1 January 2015 (the "**SRM Regulation**"). Additionally, the European Commission proposed an amending directive to facilitate the creation of a new asset class of "non-preferred" senior debt. The aforementioned proposals, together, the "**Proposals**". The Proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of "non-preferred" senior debt, changes to the definitions of Tier 2 and Additional Tier 1 Instruments, the MREL framework and the integration of the TLAC standard into EU legislation as mentioned above. The Proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until the Proposals are in final form, it is uncertain how the Proposals will affect the Issuer or the holders of the Preferred Securities.

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

The European Commission's Proposals require the introduction of some adjustments to the existing MREL rules ensuring technical consistency with the structure of any requirements for G-SIIs. In particular, technical amendments to the existing rules on MREL are needed to align them with the TLAC standard regarding inter alia the denominators used for measuring loss-absorbing capacity, the interaction with capital buffer

requirements, disclosure of risks to investors, and their application in relation to different resolution strategies. Implementation of the TLAC/MREL Requirements is expected to be the greater of (a) 16 per cent. of RWA as from 1 January 2019 and 18 per cent. of RWA as from 1 January 2022 and (b) 6 per cent. of the Basel III leverage exposures as from 1 January 2019, and 6.75 per cent. of the Basel III leverage exposures as from 1 January 2022.

Any failure by an institution to meet the applicable minimum TLAC/MREL Requirements is intended to be treated similarly as a failure to meet minimum regulatory capital requirements, where resolution authorities must ensure that they intervene and place an institution into resolution sufficiently early if it is deemed to be failing or likely to fail and there is no reasonable prospect of recovery and, in particular, could result in the imposition of restrictions on discretionary payments, and the possible cancellation of Distributions on the Preferred Securities (in whole or in part) (See further "*Implementation of capital requirements may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects*").

Additionally, the BCBS is currently in the process of reviewing and issuing recommendations in relation to risk asset weightings which may lead to increased regulatory scrutiny of risk asset weightings in the jurisdictions who are members of the BCBS. At its meeting on 10 January 2016, the GHOS published its final standard on market risk (the Fundamental Review of the Trading Book ("**FRTB**")), which is now part of the European Commission's legislative package intended to apply to banks from 2021. When implemented, the FRTB will be subject to a phase-in period of three years during which banks will be allowed a 35 per cent. discount factor for the FRTB applying until 2024. There is a high degree of uncertainty with regards to the BCBS's final calibration of the proposed reforms, and subsequently how and when they will be implemented in the EU.

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

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

Deferred Tax Assets

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

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

Due to these differences and the impact of the requirements of CRD IV on DTAs, the Spanish regulator implemented certain amendments to former Law on Corporate Income Tax, approved by Royal Legislative Decree 4/2004, of 5 March 2004 by virtue of RD-L 14/2013, which also provided for a transitional regime for

DTAs generated before 1 January 2014. These amendments enabled certain DTAs to be treated as a direct claim against the Spanish tax authorities if a Spanish credit institutions were unable to reverse the relevant differences and provided that the financial institution was on a liquidation or insolvency scenario or incurred in accounting losses. Additionally, the transitional regime provided for a period in which a percentage of the applicable DTAs could be deducted. This transitional regime was included in the new Law 27/2014, of 27 November, on Corporate Income Tax ("**CIT Law**").

However, the European Commission initiated a preliminary state aid investigation in relation to the Spanish DTAs regime. Such investigation is now resolved to the extent that the European Commission, the Bank of Spain and the Spanish Ministries of Treasury and Economy agreed a commitment to amend the applicable law in order to reinforce the compatibility of the regime with European Law. In general terms, the amendment passed requires payment of a special tax charge in order for the conversion of the DTAs into a current asset to be enforceable.

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

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

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

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

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

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

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

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

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

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

The SSM represents a significant change in the approach to bank supervision at a European and global level. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the

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

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

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority, in particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes (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 UK, 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 Banking Reform Act, 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, as these regulatory developments may require the Group to invest significant management attention and resources to make any necessary changes.

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

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

The new Markets in Financial Instruments legislation (which comprises Regulation (EU) No 600/2014 ("**MiFIR**") and Directive 2014/65/EU ("**MiFID II**")), introduces a trading obligation for those OTC derivatives which are subject to mandatory clearing and which are sufficiently standardised. Additionally, it includes other requirements such as enhancing the investor protection's regime and governance and reporting obligations. It also extends transparency requirements to OTC operations in non-equity instruments. MiFID II was initially intended to enter into effect on 3 January 2017. In order to ensure legal certainty and avoid potential market disruption, the European Commission has proposed delaying the effective date of MiFID II by 12 months until 3 January 2018.

The Bank's Miami Branch is subject to American regulation

The regulation in the United States of the financial services industry has experienced significant structural reforms since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") in 2010. The Dodd-Frank Act provided for, or authorised regulations providing for, among other things, the establishment of enhanced prudential standards applicable to certain systemically important financial institutions ("**SIFIs**"), including the US operations of certain large foreign banking organisations ("**FBOs**"); establishment of resolution planning requirements for certain US banking organisations and FBOs; prohibitions on engagement by certain banking entities in certain proprietary trading activities and restrictions on ownership or sponsorship of, or entering into certain credit-related transactions with related, covered funds (the "**Volcker Rule**"). Others of these regulations have yet to be fully implemented and with the new administration in the United States further change may be expected. The ongoing Dodd-Frank Act implementation and potential regulatory changes in connection with the new US administration could result in loss of revenue, higher compliance costs, additional limits on the Group's activities, constraints on its ability to enter into new businesses and other adverse effects on its businesses.

The Group is required under the Dodd-Frank Act to prepare and submit annually to the Federal Reserve Board and the Federal Deposit Insurance Corporation ("**FDIC**") a plan (commonly called a "living will") for

the orderly resolution of the Bank's Miami Branch (domiciled in the United States) in the event of future material financial distress or failure. If, after reviewing the Bank's Miami Branch's resolution plan required under the Dodd-Frank Act and any related re-submissions, the Federal Reserve Board and the FDIC jointly determine that the Miami Branch failed to cure identified deficiencies, they are authorised to impose more stringent capital, leverage or liquidity requirements, or restrictions on the Group's growth, activities or operations, which could have an adverse effect on the Group's business.

In October 2015, the US federal bank regulatory agencies adopted final rules for uncleared swaps that will phase in variation margin requirements from 1 September 2016 through 1 March 2017 and initial margin requirements from 1 September 2016 through 1 September 2020, depending on the level of specified derivatives activity of the swap dealer and the relevant counterparty. The final rules of the US federal bank regulatory agencies would generally apply to inter-affiliate transactions. The SEC will in the future adopt regulations establishing margin requirements for uncleared security-based swaps.

Each of these aspects of the Dodd-Frank Act, as well as other aspects, such as the Volcker Rule, OTC derivatives regulation other changes in US banking regulations, may directly and indirectly impact various aspects of the Group's business. The full spectrum of risks that the Dodd-Frank Act poses to the Group is not yet fully known; however, such risk could be material and the Group could be material and adversely affected by them.

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

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

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

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

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to implementation, the timing of which remains unclear. Additional member states may decide to participate and certain of the participating member states may decide not to participate. Prospective holders of the Preferred Securities are advised to seek their own professional advice in relation to the FTT.

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

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 EU Court of Justice judgement of 21 December 2016 on floor clauses, the negative impact in the interest income related to the renegotiation of commercial agreements that contains floors with customers over 2016 and 2017 would be approximately €75 million. As of 31 of December 2016, the Issuer includes provisions for non-performing loans of €410 million for contingent events associated to the mortgage floors.

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 20.4 per cent. of the Group's total credit portfolio as of 31 December 2016 compared to 20.0 per cent. as of 31 December 2015). SMEs are particularly sensitive to adverse developments in the economy, rendering the Group's lending activities relatively riskier than if it lent primarily to higher-income customers.

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

A weakening in customer and counterparties creditworthiness could impact the Group's capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its RWA, in accordance with the CRD IV Directive (as implemented in Spain by Law 10/2014, RD 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 48.4 per cent. of the Group's liabilities as of 31 December 2016), it cannot provide any assurance that, in the event that its depositors (as of 31 December 2016 and 2015, total deposits represented 71.4 per cent. and 73.6 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 buffer in liquid assets, the Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be adequate to mitigate liquidity risk.

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

The liquidity coverage ratio ("**LCR**") is a quantitative liquidity standard developed by the BCBS to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and, since January 2015, is being phased-in until 2019. Currently the banks to which this standard applies must comply with a minimum LCR requirement of 80 per cent. and gradually increase the ratio to reach 100 per cent. on 1 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.

On 23 November 2016, the European Commission published among other a proposal for a European Directive amending CRR, where the EC proposes to implement the BCBS standard on NSFR introducing some adjustments. If European authorities so decide, the NSFR, shall apply from 2 years after the date of entry into force of the proposed texts.

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

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, the Bank has taken advantage of the financing provided by the ECB through its December 2011 and February 2012 Long Term Refinancing Operations ("**LTRO**"), which offered financial institutions three-year loans at a discount, as well as the Targeted Long Term Refinancing Operations held on 17 December 2014 ("**TLTRO I**").

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

As of 31 December 2016, ECB funding represented 5.6 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.

At the end of the year, the Bank has €1,818 million of indebtedness maturing in 2017 and €10,000 million in 2020, which it may in part refinance by means of balance sheet deleveraging and TLTRO Financing. In the last TLTRO II window in March 2017, the Bank requested €10,500 million maturing in 2021. 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 Offering Circular, the Bank's long term rating is BB+ with a positive Outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Baa3/Baa2 for senior debt/deposits with a Stable Outlook by Moody's Investors Service, Inc. ("**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, P-3/P-2 for senior debt/deposits by Moody's and R-1 (low) 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, results of operations and prospects. 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, results of operations and prospects.

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 60.4 per cent. of its total gross loan portfolio as of 31 December 2016. Loans to property developers to build properties for sale comprised 7.8 per cent. of this mortgage loan portfolio (amounting to 4.7 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 2016, 29.0 per cent. of the Group's loans to the real estate development sector were non-performing compared to its overall average of 6.14 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 is 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 subject to fluctuations 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 79 per cent. and 75 per cent. of the Group's gross income (excluding gains from a sale of financial assets) in the years ended 31 December 2016 and 2015, 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 70.1 per cent. of the Group's loan portfolio as of 31 December 2016 consisted of variable interest rate loans, its business is sensitive to volatility in interest rates. Approximately 19.1 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 2016, 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 €25,276 million, representing 11.9 per cent. of its total assets. As of that date, €10,081 million, or 39.9 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 *Fondo de Reestructuración Ordenada Bancaria* or "**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, United Kingdom and Portugal, with investments of €6,032 million, €2,261 million, €2,187 million and €1,106 million, respectively, as of 31 December 2016.

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

The UK 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 21.0 per cent. and 18.3 per cent. of the Group's gross income for the years ended 31 December 2016 and 2015, 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 few 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.

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 2016, the outstanding balance of the Mortgage Enhancement portfolio was £1,849 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, results of operations and prospects.

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 UK 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, results of operations and prospects.

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, financial position, results of operations and prospects.

Risks related to the Preferred Securities

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

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

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

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

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

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

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

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

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

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

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

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

The four resolution tools are: (i) sale of business (which enables the Relevant Resolution Authority to direct the sale of the institution or the whole or part of its business on commercial terms); (ii) bridge institution (which enables the Relevant Resolution Authority to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control)); (iii) asset separation (which enables the Relevant Resolution Authority to transfer certain category of assets normally impaired or problematic to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used

together with another resolution tool only)); and (iv) bail-in (which gives the Relevant Resolution Authority the right to exercise certain elements of the Spanish Bail-in Power (as defined below)). This includes the ability of the Relevant Resolution Authority to write down (including to zero) and/or to convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) certain unsecured debt claims and subordinated obligations (including capital instruments such as the Preferred Securities).

The "**Spanish Bail-in Power**" is any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to (i) Law 11/2015, as amended from time to time, (ii) 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 Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion shall be as follows: (i) CET1 instruments; (ii) additional tier 1 instruments (which for so long as the obligations of the Bank in respect of the Preferred Securities constitute Additional Tier 1 Instruments, shall include the Preferred Securities); (iii) tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) eligible senior liabilities prescribed in Article 41 of Law 11/2015. The order of this sequence is consistent with the hierarchy of claims in normal insolvency proceedings prescribed by Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de Julio, Concursal*) (the "**Insolvency Law**") read in conjunction with Additional Provision 14.2º of Law 11/2015.

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

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

The powers set out in the BRRD as implemented through Law 11/2015, RD 1012/2015 and the SRM Regulation will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, holders of Preferred Securities may be subject to, among other things, on any application of the Spanish Bail-in-Power a write-down (including to zero), in which case there may be no conversion of the Preferred Securities into Ordinary Shares, or

conversion into equity or other securities or obligations of amounts due under the Preferred Securities under terms different or less advantageous for the holders of the Preferred Securities as the conversion described in the Conditions and additionally may be subject to any Non-Viability Loss Absorption which may have similar adverse effects to the rights of the holders under the Preferred Securities. The exercise of any such powers may result in such holders of the Preferred Securities losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected. For example, the Spanish Bail-in Power may be exercised in such a manner as to result in holders of the Preferred Securities receiving a different security, which may be worth significantly less than the Preferred Securities.

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

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

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

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

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

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

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

CRD IV imposes a series of requirements, many of which will be phased in over a number of years. Although the CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator. In particular, the measurement of RWAs may change over time as a result of further international review and, if so, it may have an adverse effect on the CET1 ratio.

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

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

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

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

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

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of holders of the Preferred Securities) converted (which calculation is made by the Bank and shall be binding on the holders of the Preferred Securities) into newly issued Ordinary Shares. Because the Trigger Event will occur when the Bank's or the Group's CET1 ratio will have deteriorated significantly, the resulting Trigger Event will likely be accompanied by a prior deterioration

in the market price of the Ordinary Shares, which may be expected to continue after announcement of such Trigger Event.

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

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

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

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

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

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

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

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

Preferred Securities are perpetual

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

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

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

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

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

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

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

Under the terms of the Preferred Securities, a Capital Event is a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would be likely to result) in: (i) the exclusion of any of the outstanding aggregate Liquidation

Preference of the Preferred Securities from the Bank´s or the Group's Additional Tier 1 capital; or (ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of regulatory capital of the Bank or the Group. See also Condition 6.3.

For the purposes of the Preferred Securities, a Tax Event is a change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by court of competent jurisdiction) that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being obliged to pay additional amounts pursuant to Condition 12 and such obligation cannot be avoided by the Bank taking reasonable measures available to it, or (c) the applicable tax treatment of the Preferred Securities being materially affected. See also Condition 6.4.

If any notice of redemption of the Preferred Securities is given pursuant to Condition 6 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 5.

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

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

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

The Preferred Securities accrue Distributions as further described in Condition 3, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any distribution in whole or in part at any time and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank or the Group, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive). See

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

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

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

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

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

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

Additionally, in relation to the foregoing, investors should be aware that the Bank shall only pay any additional amounts payable in accordance with Condition 12 to the extent such payment can be made on the same basis as for a payment of any Distribution in accordance with Condition 3.

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

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

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

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of RWAs. In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional "Pillar 2" capital that may be required to be maintained to address risks not considered to be fully captured by the minimum "own funds" requirements or to address macro-prudential considerations, and this may similarly include, under the Proposals made by the European Commission on 23 November 2016, further regulatory requirements such as the TLAC/MREL Requirements. The Group may also decide to hold additional capital or senior liabilities.

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

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

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

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

- the "Maximum Distributable Amount" applies when the "combined buffer requirement" is not maintained. The "combined buffer requirement" represents the amounts of capital that a financial institution is required to maintain beyond the minimum "Pillar 1" and (if applicable) "Pillar 2" required by applicable regulations. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust) and others which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;

- the capital conservation buffer and the institution-specific countercyclical buffer were implemented on 1 January 2016 on a phased basis continuing to 2019. The systemic risk buffer may be applied at any time upon decision of the relevant authorities. As a result, the potential impact of the "Maximum Distributable Amount" will change over time; and

- moreover, payments made earlier in the year will reduce the remaining "Maximum Distributable Amount" available for payments later in the year, and the Bank will have no obligation to preserve any portion of the "Maximum Distributable Amount" for payments scheduled to be made later in a given year. Even if the Bank attempts to do so, there can be no assurance that it will be successful, as the

"Maximum Distributable Amount" at any time will depend on the amount of net income earned during the course of the relevant year, which will necessarily be difficult to predict.

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

Amongst other things, the December 2015 EBA Opinion (which does not have the force of law) included an opinion addressed to EEA competent authorities that they should ensure that the CET1 capital to be taken into account for the MDA calculation is limited to the amount not used to meet "Pillar 1" and "Pillar 2" capital of the institution. In effect, this would mean that "Pillar 2" capital would be 'stacked' below the capital buffers, and thus a firm's CET1 capital resources would only be applied to meeting capital buffer requirements after "Pillar 1" and "Pillar 2" capital have been met in full.

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

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

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

Furthermore, any determination of the capital of the Group and the compliance of the Group with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or a combination of which may not be easily observable or capable of calculation by holders of the Preferred Securities and some of which may also be outside of the control of the Group. The

risk of any cancellation (in whole or in part) of Distributions (or any additional amounts payable in accordance with Condition 12) on the Preferred Securities may not, therefore, be possible to predict in advance and any such cancellation of Distributions (or any additional amounts payable in accordance with Condition 12) on the Preferred Securities could occur without warning.

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

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

There are no events of default

Holders of Preferred Securities have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution (or any additional amounts payable in accordance with Condition 12) in whole or in part at any time and as further contemplated in Condition 3 (see "*Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*") and such cancellation will not constitute any event of default or similar event or entitle holders of the Preferred Securities to take any related action against the Bank. If Ordinary Shares are not issued and delivered following a Trigger Event, then on a liquidation, dissolution or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

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

The Preferred Securities are perpetual (see "*Preferred Securities are perpetual*"). The Bank has the option to redeem the Preferred Securities in certain circumstances (see "*The Preferred Securities may be redeemed at the option of the Bank*"). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 6 and 7). There can be no assurance that holders of the Preferred Securities will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

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

(i) if the Bank exercises its rights to redeem the Preferred Securities in accordance with Condition 6 (on any Distribution Payment Date falling on or after the First Reset Date or upon the occurrence of a

Capital Event or a Tax Event) (see "*The Preferred Securities may be redeemed at the option of the Bank*") or purchase the Preferred Securities in accordance with Condition 7; or

(ii) by selling their Preferred Securities or, following the occurrence of a Trigger Event and the issue and delivery of Ordinary Shares in accordance with Condition 5, their Ordinary Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Ordinary Shares (see "*The secondary market generally*").

If the Bank exercised its right to redeem or purchase the Preferred Securities in accordance with Condition 6 but failed to make payment of the relevant Liquidation Preference to redeem the Preferred Securities when due, such failure would not constitute an event of default but would entitle holders of the Preferred Securities to bring a claim for breach of contract against the Bank, which, if successful, could result in damages.

Holders of the Preferred Securities have limited anti-dilution protection

The number of Ordinary Shares to be issued and delivered on Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date. The Conversion Price will be, if the Ordinary Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Current Market Price of an Ordinary Share; (b) the Floor Price; and (c) the nominal value of an Ordinary Share at the time of conversion (being €0.125 on the Closing Date) or, if the Ordinary Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 5 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Ordinary Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Ordinary Shares, but only in the situations and to the extent provided in Condition 5.3. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares or that, if a Holder were to have held the Ordinary Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

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

Further, if the Bank issues any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares and such Dividend does not constitute an Extraordinary Dividend, no Floor Price adjustment shall be applicable in accordance with Conditions 5.3(b) and 5.3(c), and therefore holders of the Preferred Securities will not be protected by anti-dilution measures.

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

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Bank may need to raise additional capital. Further capital raisings by the Bank could result in the dilution of the interests of the holders of the Preferred Securities, subject only to the limited anti-dilution protections referred to above.

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

The payment obligations of the Bank under the Preferred Securities on account of principal constitute direct, unconditional, unsecured and subordinated obligations (créditos subordinados) of the Bank in accordance with Article 92.2º of the Insolvency Law and rank as set out in Condition 2.2 in accordance with Additional Provision 14.2º of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law, upon the insolvency of the Bank, for so long as the obligations of the Bank under the Preferred Securities qualify as Additional Tier 1 Instruments but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise). For these purposes as of the date of this Offering Circular and according to Additional Provision 14.2º of Law 11/2015, the ranking of the Preferred Securities and any other subordinated obligations of the Bank may depend on whether those obligations qualify at the relevant time an Additional Tier 1 Instruments or Tier 2 Instruments or constitute subordinated obligations of the Bank not qualifying as Additional Tier 1 Instruments or Tier 2 Instruments. See Condition 2.2 for the complete provisions regarding the ranking of the Preferred Securities.

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

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

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

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

In order to obtain delivery of the relevant Ordinary Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 5.10. If a duly completed Delivery Notice is not so delivered, then a Holder will bear the risk of fluctuations in the price of the Ordinary Shares that may further affect the value of any Ordinary Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-off Date (save as provided below), in its sole and absolute discretion, elect to appoint a person (the "**Selling Agent**") to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

Due to the fact that, in the event of the Trigger Event, investors are likely to receive Ordinary Shares at a time when the market price of the Ordinary Shares is very low, the cash value of the Ordinary Shares received

upon any such sale could be substantially lower than the price paid for the Preferred Securities at the time of their purchase. In addition, the proceeds of such sale may be further reduced as a result of the number of Ordinary Shares offered for sale at the same time being much greater than may be the case in the event of sales by individual holders of the Preferred Securities.

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

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

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

There are limited remedies available under the Preferred Securities

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

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

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

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

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

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

Additionally, any natural or legal person, or such persons acting in concert, who acquire, directly or indirectly, a holding of 5 per cent. must immediately notify the Bank and the Bank of Spain. If the holding that is to be acquired reaches 10 per cent. or more of the capital or the voting rights or any other percentage which makes it possible to exercise a significant influence over the management of a Spanish bank (in any case when there

is the capacity to appoint or dismiss a board member), such person must first notify the Bank of Spain and, as soon as it receives such notice, the Bank of Spain shall then request the Spanish Anti-Money Laundering Authority for a report. See "*Description of Share Capital – Legal Restrictions on Acquisitions of shares in Spanish Banks*".

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

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

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

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

Any pecuniary rights with respect to the Ordinary Shares, in particular the entitlement to dividends, shall only arise and the exercise of voting rights and rights related thereto with respect to any Ordinary Shares is only possible after the date on which, following a Conversion, as a matter of Spanish law, the relevant Ordinary Shares are issued and the person entitled to the Ordinary Shares is registered as a shareholder in the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.*) ("**Iberclear**") and its participating entities in accordance with the provisions of, and subject to the applicable Spanish law and the limitations provided in, the articles of association of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Ordinary Shares after the occurrence of a Trigger Event shall result in the holders of the Preferred Securities not receiving any benefits related to the holding of the Ordinary Shares and, on a liquidation, dissolution or winding-up of the Bank, the entitlement of any such holders of the Preferred Securities will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up, as more particularly described in Condition 4.2. Furthermore, under Spanish law, only the holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and to exercise voting, pre-emptive and other rights in respect of such shares. Accordingly, investors who are not registered in Iberclear and hold their shares in Euroclear, Clearstream or otherwise will have to rely on the procedure of Euroclear and Clearstream (and any bridging systems with Iberclear), or the procedures otherwise applicable to them, in order to benefit from and exercise such rights.

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

Condition 10 contains provisions for calling meetings of holders of Preferred Securities to consider matters affecting the interests of holders of Preferred Securities generally. These provisions permit defined majorities

to bind all holders of Preferred Securities including those holders who did not attend and vote at the relevant meeting and who voted in a manner contrary to the majority.

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

Spanish withholding tax regime

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

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

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

Notwithstanding the above, in the case of Preferred Securities held by Spanish tax resident individuals and, under certain circumstances, by Spanish entities subject to Corporate Income Tax and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Preferred Securities may be subject to withholding by such depositary or custodian (currently 19 per cent.) and the Bank may not be required to pay the relevant holder of Preferred Securities additional amounts (as described above, please see Condition 12).

In particular, with regard to Spanish entities subject to Corporate Income Tax, withholding could be made if it is concluded that the Preferred Securities do not comply with the relevant exemption requirements and those specified in the ruling issued by the Spanish Tax Authorities (Dirección General de Tributos) dated 27 July 2004 are deemed included among such requirements. According to said 2004 ruling, application of the exemption requires that, in addition to being traded on an organized market in an OECD country, the

Preferred Securities are placed outside Spain in another OECD country. In the event that it was determined that the exemption from withholding tax on payments to Spanish corporate holders of Preferred Securities does not apply to any of the Preferred Securities on the basis that they were placed, totally or partially, in Spain, the Bank would be required to make a withholding at the applicable rate, and no additional amounts will be payable by the Bank in such circumstances as set out above.

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

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

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the EU adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (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). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the OECD in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank nor any Principal Paying Agent (as defined in the Conditions of the Preferred Securities) nor any other person would be obliged to pay additional amounts with respect to any Preferred Security as a result of the imposition of such withholding tax. The Bank is required to maintain a Principal Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

U.S. Foreign Account Tax Compliance Withholding

While the Preferred Securities are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of

the U.S. Internal Revenue Code of 1986 ("**FATCA**") will affect the amount of any payment received by the ICSDs (see "*Taxation – FATCA*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank's obligations under the Preferred Securities are discharged once it has made payment to, or to the order of, the Common Depositary (as holder of the Preferred Security) and the Bank has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 7. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

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

Interest rate risk

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

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

The Preferred Securities will bear interest at an initial fixed rate of interest from (and including) the Closing Date to (but excluding) the First Reset Date. From (and including) the First Reset Date, and on every Reset Date thereafter, the interest rate will be reset as described in Condition 3. This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any Distributions under the Preferred Securities and so the market value of an investment in the Preferred Securities.

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

The Preferred Securities are expected, upon issue, to be assigned a B2 rating by Moody's. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

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

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

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

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

In addition to ratings assigned by any hired rating agencies, rating agencies not hired by the Bank to rate the Preferred Securities may assign unsolicited ratings. If any non-hired rating agency assigns an unsolicited

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

Legal investment considerations may restrict certain investments

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

INFORMATION INCORPORATED BY REFERENCE

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

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

   https://www.grupbancsabadell.com/g3repository/PDF/EN_INFOLEGAL2016_EN_INFOLEGAL2016_ANUAL2016.PDF

2. an English language translation of the audited consolidated annual accounts (including the auditors' report thereon, notes thereto and directors' report) 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

3. an English language translation of the unaudited consolidated quarterly financial data of the Issuer for the three-month period ended 31 March 2017

   https://www.grupbancsabadell.com/g3repository/1T2017/EN_IF_1T2017_IF_TRIMESTRAL_1T17_EN.PDF

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

The documents listed at 1 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 Offering Circular 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 Offering Circular is either not relevant to investors or covered elsewhere in this Offering Circular.

OVERVIEW OF THE OFFERING

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

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

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

Issuer:	**Banco de Sabadell, S.A.**
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under "Risk Factors" above and include the Spanish economy and the global macroeconomic environment and risks relating to increasingly onerous capital requirements, the lack of availability of funding, volatility in interest rates and increased competition. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under "Risk Factors".
Issue size:	€750,000,000
Issue date:	18 May 2017
Issue details:	€750,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities of €200,000 Liquidation Preference each.
	The Bank has requested that the Preferred Securities qualify as Additional Tier 1 Capital of the Bank and/or the Group pursuant to Applicable Banking Regulations.
Liquidation Preference:	€200,000 per Preferred Security.
Use of Proceeds:	The Bank intends to use the net proceeds from the issue of the Preferred Securities for the Group's general corporate purposes.
Distributions:	The Preferred Securities will accrue Distributions as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at

	the rate of 6.5 per cent. per annum; and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, first calculated on an annual basis and then converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date. Subject as provided in Condition 3 (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.
	For further information, see Condition 3.
Limitations on Distributions:	The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Without prejudice to the right of the Bank to cancel the payments of any Distribution:
	(a) Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.
	(b) If the Competent Authority, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations, requires the Bank to cancel a relevant Distribution in whole or in part, the Bank will only make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.
	(c) No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any

	Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any applicable Maximum Distributable Amount, Article 48 of Law 10/2014 and any provisions implementing such Article, and any other provision of Spanish law transposing or implementing Article 141(2) of the CRD IV Directive).
	(d) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any further Distribution on the Preferred Securities including any accrued and unpaid Distributions.
	For further information, see Condition 3.
Status of the Preferred Securities:	The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2.2 in accordance with Article 92.2º of the Insolvency Law and with Additional Provision 14.2º of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise).
	For further information, see Condition 2.2.
Optional Redemption:	All, and not only some, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price.
	The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event.
	The Preferred Securities may further be redeemed on or after the Closing Date at the option of the Bank subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Tax Event.

	For further information, see Condition 6.
Conversion:	In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued Ordinary Shares at the Conversion Price. A Trigger Event occurs if the CET1 ratio of the Issuer or the Group is less than 5.125 per cent.
	For further information, see Condition 5.
Conversion Price:	If the Ordinary Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Current Market Price of an Ordinary Share; (ii) the Floor Price; and (iii) the nominal value of an Ordinary Share at the time of conversion (being €0.125 on the Closing Date), or (b) not then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of subparagraph (ii) or (iii) of paragraph (a) above.
	The Floor Price is subject to adjustment in accordance with Condition 5.3.
Liquidation Distribution:	Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 5) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or, to the extent permitted by law, any other instrument of the Bank ranking junior to the Preferred Securities.
	If, before such liquidation, dissolution or winding-up of the Bank described above, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to Condition 5 is still to take place, the entitlement conferred by the Preferred Securities for the above purposes, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.
Purchases:	The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Competent Authority, if required.

Voting Rights:	The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the above, the Conditions of the Preferred Securities contain provisions for convening meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.
	For further information, see Condition 9.
Spanish Companies Law:	Holders of the Preferred Securities (i) will not benefit from any right as a holder of Preferred Securities arising from article 418 of the Spanish Companies Law; (ii) will be deemed to have irrevocably instructed the Principal Paying Agent to take any action and/or to sign or execute and deliver any documents or notices that may be necessary or desirable to comply with and give effect to provision (i) hereof. Article 418 of the Spanish Companies Law provides, inter alia, for holders of convertible securities to have certain rights in the event of relevant capital increases or reductions, which may include the conversion of their securities or the application of anti-dilution provisions. In the case of the Preferred Securities, conversion is only intended as a loss absorption measure and provision is already made for the necessary adjustments to the Floor Price in the event of any applicable capital increase or reduction.
Withholding Tax and Additional Amounts:	As provided in Condition 12, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless the withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain, the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 3) pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required.
	For further information, see Condition 12 and "Taxation – Tax treatment of the Preferred Securities – Reporting Obligations" below.

Form:	The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.
Rating:	The Preferred Securities are expected, on issue, to be assigned a B2 rating by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing:	Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.
Governing Law:	The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom and Spain. Regulation S, category 2 restrictions under the Securities Act apply. The Preferred Securities will not be eligible for sale in the United States under Rule 144A of the Securities Act.

CONDITIONS OF THE PREFERRED SECURITIES

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

The Preferred Securities (as defined below) are issued by Banco de Sabadell, S.A. (the "**Bank**") by virtue of the resolutions passed by (a) the general meeting of shareholders of the Bank, held on 30 March 2017 and (b) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 27 April 2017 and in accordance with the First Additional Provision of Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) (**Law 10/2014**) and the CRR (as defined below).

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

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

1 Definitions

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

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

(a) the rate for the Reset Date of the annual swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the relevant Screen Page under the heading "EURIBOR BASIS – EUR" and above the caption "11:00AM FRANKFURT" as of 11.00 (CET) on the Reset Determination Date; or

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

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

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

(b) is in a Representative Amount,

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

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

"**Additional Ordinary Shares**" has the meaning given in Condition 5.4;

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

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation of the Bank constituting an additional tier 1 instrument (*instrumento de capital de nivel 1 adicional*) under Additional Provision 14.2º(c) of Law 11/2015;

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

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

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

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

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

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

"**Capital Event**" means, at any time on or after the Closing Date, a change (or any pending change which the Competent Authority considers sufficiently certain) in the regulatory classification of the Preferred Securities that results (or would be likely to result) in: (i) the exclusion of any of the outstanding aggregate Liquidation Preference of the Preferred Securities from the Bank´s or the Group's Additional Tier 1 Capital; or (ii) the reclassification of any of the outstanding aggregate Liquidation Preference of the Preferred Securities as a lower quality form of regulatory capital of the Bank or the Group;

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

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

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

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

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

"**Closing Date**" means 18 May 2017;

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

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

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

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

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

(ii) the Floor Price; and

(iii) the nominal value of an Ordinary Share at the time of conversion (being €0.125 on the Closing Date),

in each case on the Trigger Event Notice Date; or

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

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

"**Conversion Shares**" has the meaning given in Condition 5.2;

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

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

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

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

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

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

and provided further that:

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

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

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

"**Delivery Notice**" means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream, Luxembourg from time to time, which contains the relevant account and related details for the delivery of any Ordinary Shares and all relevant certifications and/or representations as may be

required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a conversion of the Preferred Securities and the delivery of the Ordinary Shares;

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

"**Distribution**" means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with Condition 3;

"**Distribution Payment Date**" means each of 18 February, 18 May, 18 August and 18 November, in each year, with the first Distribution Payment Date falling on 18 August 2017;

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

"**Distribution Rate**" means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 3;

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

(c) where:

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

(ii) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex the relevant Dividend on the Relevant Stock

Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;

(d) any issue of Ordinary Shares falling within Condition 5.3(a) or 5.3(b) shall be disregarded;

(e) a purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy-backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Companies Law, 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 "**Spanish Companies Law**") for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy-back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy-back of Ordinary Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a "**Specified Share Day**") in respect of such purchases or redemptions or buy-backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy-backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy-back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by or on behalf of the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

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

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

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

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

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

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

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

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

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

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

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith provided that: (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking into account such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or

paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

"**First Reset Date**" means 18 May 2022;

"**Floor Price**" means €1.221 per Ordinary Share, subject to adjustment in accordance with Condition 5.3;

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

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

"**Holders**" means holders of the Preferred Securities;

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

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

"**Initial Margin**" means 6.414 per cent. per annum;

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

"**Law 11/2015**" means Law 11/2015, of 18 June, on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de Recuperación y Resolución de Entidades de Crédito y Empresas de Servicios de Inversión*), as amended from time to time;

"**Liquidation Distribution**" means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

"**Liquidation Preference**" means €200,000 per Preferred Security;

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

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

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

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

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

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

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

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

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

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

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

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

"**Preferred Securities**" means the €750,000,000 Perpetual Non-Cumulative Contingent Convertible Additional Tier 1 Preferred Securities issued by the Bank on the Closing Date;

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

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch (or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in Condition 13);

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

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

"**Redemption Price**" means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

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

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

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

"**Relevant Stock Exchange**" means the Spanish Stock Exchanges or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on any of the Spanish Stock Exchanges, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

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

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

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

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

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 (CET) on the Reset Determination Date for such Reset Date. The Agent Bank will request the principal offices of each of the Reference Banks to provide a quotation of its rate. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (a) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (b) in the case of the Reset Period commencing on the First Reset Date, 0.246 per cent. per annum;

"**Retroactive Adjustment**" has the meaning given in Condition 5.4;

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

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

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

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

"**Selling Agent**" has the meaning given in Condition 5.10;

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

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

"**Shareholders**" means the holders of Ordinary Shares;

"**Spanish Companies Law**" means the Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Law (*Ley de Sociedades de Capital*);

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

"**Specified Date**" has the meanings given in Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), as applicable;

"**Spin-Off**" means:

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

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

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

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

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

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

"**Tax Event**" means, at any time on or after the Closing Date, a change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by court of competent jurisdiction) that results in (a) the Bank not being entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank being materially reduced, or (b) the Bank being obliged to pay additional amounts pursuant to Condition 12 below and such obligation cannot be avoided by the Bank taking reasonable measures available to it, or (c) the applicable tax treatment of the Preferred Securities being materially affected;

"**Trigger Conversion**" has the meaning given in Condition 5.1;

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

"**Trigger Event Notice**" has the meaning given in Condition 5.1;

"**Trigger Event Notice Date**" means the date on which a Trigger Event Notice is given in accordance with Condition 5.1;

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

As of the Closing Date, the price of the Ordinary Shares, which are listed on the Relevant Stock Exchange, is published on the Reference Page on each dealing day.

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

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

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

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

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

1.5 For the purposes of Condition 5.3 only (a) references to the issue of Ordinary Shares or Ordinary Shares being **issued** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Ordinary Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 5.3(d) and 5.3(f), do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2 Form and Status

2.1 The Preferred Securities will be issued in bearer form.

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

2.2 Unless previously converted into Ordinary Shares pursuant to Condition 5, the payment obligations of the Bank under the Preferred Securities on account of principal constitute direct, unconditional, unsecured and subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law and, in accordance with Additional Provision 14.2º of Law 11/2015, but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), upon the insolvency of the Bank, for so long as the obligations of the Bank under the Preferred Securities qualify as Additional Tier 1 Instruments, rank:

(a) *pari passu* among themselves and with (i) any claims for principal in respect of other contractually subordinated obligations (*créditos subordinados*) of the Bank in accordance with Article 92.2º of the Insolvency Law qualifying as Additional Tier 1 Instruments and (ii) any other subordinated obligations (*créditos subordinados*) of the Bank which by law and/or by

their terms, to the extent permitted by Spanish law, rank *pari passu* with the Bank´s obligations under the Preferred Securities;

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

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

3 Distributions

3.1 The Preferred Securities accrue Distributions:

(a) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.5 per cent. per annum; and

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

Subject as provided in Conditions 3.3 and 3.4, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is to be paid in respect of a Preferred Security on any other date, other than as a result of any postponement in accordance with Condition 3.2, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (i) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the "Accrual Date") to (but excluding) the date on which Distributions fall due divided by (ii) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

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

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

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

3.4 Without prejudice to the right of the Bank to cancel the payments of any Distribution under Condition 3.3 above:

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

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

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

(d) If the Trigger Event occurs at any time on or after the Closing Date, the Bank will not make any Distribution following the occurrence of such Trigger Event on the Preferred Securities including any accrued and unpaid Distributions.

3.5 For the purposes of the cancellation of Distributions pursuant to Conditions 3.3 and 3.4 above, the term "Distributions" will be deemed to include, if applicable, any additional amounts payable pursuant to Condition 12 below.

3.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 3.3 above or the limitations on payment set out in Condition 3.4 above and Condition 5.1(b) below then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

3.7 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Condition 3.4 above and Condition 5.1(b) below will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding-up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior

to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security. If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) and accordingly, such Distribution shall not in any such case be due and payable. Notwithstanding the previous sentence, the Bank will give notice to the Holders in accordance with Condition 13 of any election under Condition 3.3 and of any limitation set out in Condition 3.4 occurring or applying. The failure to notify Holders as aforesaid will not invalidate the cancellation of the payment of any Distribution.

3.8 The Agent Bank will at, or as soon as practicable after, the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof is to be published in accordance with Condition 12 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

3.9 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4 Liquidation Distribution

4.1 Subject as provided in Condition 4.2 below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Ordinary Shares pursuant to Condition 5 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or any other instrument of the Bank ranking junior to the Preferred Securities.

4.2 If, before such liquidation, dissolution or winding-up of the Bank described in Condition 4.1, the Trigger Event occurs but the relevant conversion of the Preferred Securities into Ordinary Shares pursuant to Condition 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of Condition 4.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

5 Conversion

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

(a) notify the Competent Authority and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the

CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with Condition 13 below (together, the "**Trigger Event Notice**");

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

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

The Bank shall notify Holders of the expected Conversion Settlement Date and of the Conversion Price in accordance with Condition 13 not more than ten Business Days following the Trigger Event Notice Date. Notwithstanding the previous sentence, failure to provide such notifications shall not have any impact on the effectiveness of or otherwise affect the Trigger Conversion or give Holders any rights as a result of such failure.

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

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

5.2 Subject as provided in Condition 5.9, the number of Ordinary Shares to be issued on Trigger Conversion in respect of each Preferred Security to be converted (the "**Conversion Shares**") shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Trigger Event Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository on behalf of that Holder in accordance with Condition 5.10. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or, in the circumstances described in Condition 5.10, any cash amounts to which such Holders are entitled under Condition 5.10.

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

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

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

where:

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

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

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

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

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

where:

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

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

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

(c)

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

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

where:

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

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

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

"**Effective Date**" means, in respect of this paragraph (i) of Condition 5.3(c), the first date on which the Ordinary Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

"**Extraordinary Dividend**" means any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

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

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

where:

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

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

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

"**Effective Date**" means, in respect of this Condition 5.3(c)(ii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

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

(ii) In making any calculations for the purposes of this Condition 5.3(c), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (A) any consolidation or subdivision of any Ordinary Shares or (B) the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any

like or similar event) or (C) any increase in the number of Ordinary Shares in issue in the relevant year in question.

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

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

where:

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

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

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

provided that if at the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 5.3(d), the "Specified Date") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(d), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(d), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

(e) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company,

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

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

where:

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

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

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(e), the first date on which the Ordinary Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

(f) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Ordinary Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuance to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 5.3(d) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any

such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and

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

provided that if at the time of issue of such Ordinary Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 5.3(f), the "Specified Date"), such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 5.3(f), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(f), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(g) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Condition 5.3(d), 5.3(e) or 5.3(f) above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified/redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon

conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Ordinary Share; and

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

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 5.3(g), the "Specified Date") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this Condition 5.3(g), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(g), the date of issue of such Securities or, as the case may be, the grant of such rights.

(h) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 5.3(g) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

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

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 5.3(h) or Condition 5.3(g) above,

provided that if at the time of such modification (as used in this Condition 5.3(h), the "Specified Date") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 5.3(h), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(h), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(i) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Condition 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(f) above or Condition 5.3(j) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day under Condition 5.3(e) above)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

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

where:

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

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

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this Condition 5.3(i), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

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

Notwithstanding the foregoing provisions:

(i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 5.3 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

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

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 5.3(d), 5.3(f), 5.3(g) and 5.3(h), the following provisions shall apply:

(A) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;

(B) (I) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (II) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Condition 5.3(d), 5.3(f), 5.3(g) or 5.3(h), as the case may be, plus in the case of each of (I) and (II) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (III) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights

shall be the aggregate consideration or price referred to in (I) or (II) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

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

(D) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

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

5.4 If the Conversion Settlement Date in relation to the conversion of any Preferred Security shall be after the record date in respect of any consolidation, reclassification/redesignation or subdivision as is mentioned in Condition 5.3(a) above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 5.3(b), 5.3(c), 5.3(d), 5.3(e) or 5.3(i) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 5.3(f) and 5.3(g) above or of the terms of any such modification as is mentioned in Condition 5.3(h) above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under Condition 5.3 above (such adjustment, a "**Retroactive Adjustment**"), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued and delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such additional number of Ordinary Shares (if any) (the "**Additional Ordinary Shares**") as, together with the Ordinary Shares issued on conversion of the Preferred Securities (together with any fraction of an Ordinary Share not so delivered to any relevant Holder), is equal to the number of Ordinary Shares which would have been required to be issued and delivered on such conversion if the relevant adjustment to the Floor Price had been made and become effective immediately prior to the relevant Trigger Event Notice Date, provided that if the Settlement Shares Depository and/or the Holders, as the case may be, shall be entitled to receive the relevant Dividend in respect of the Ordinary Shares to be issued or delivered to them, then no such Retroactive Adjustment shall be made in relation to such Dividend, and Additional Ordinary Shares shall not be issued and delivered to the Settlement Shares Depository and Holders in relation thereto.

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

5.6 No adjustment will be made to the Floor Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or

formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.

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

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 13 promptly after the determination thereof.

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

5.9 Fractions of Ordinary Shares will not be issued on Trigger Conversion or pursuant to Condition 5.4 and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares or Additional Ordinary Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares or Additional Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Ordinary Shares.

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

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

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Ordinary Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, provided that such duly

completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the tenth Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the "Selling Agent") to procure that all Ordinary Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 3.2 or in such other manner and at such time as the Bank shall determine and notify to the Holders.

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

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 5.10 or in respect of any sale of any Ordinary Shares, whether for the timing of any such sale or the price at or manner in which any such Ordinary Shares are sold or the inability to sell any such Ordinary Shares.

If the Bank does not appoint the Selling Agent by the tenth Business Day after the Conversion Settlement Date, or if any Ordinary Shares are not sold by the Selling Agent in accordance with this Condition 5.10, such Ordinary Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void, and the Bank shall be entitled to procure the sale of any applicable Ordinary Shares to which the relevant Holder may be entitled in accordance with this Condition 5.10. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this Condition 5.10 shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

5.11 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 5.10 above) all taxes arising on Trigger Conversion other than:

(a) any taxes payable by the Bank; and

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

in each case payable in Spain and in respect of the conversion of the Preferred Securities and the issue and delivery of the Ordinary Shares (including any Additional Ordinary Shares) in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank. For the avoidance of doubt, such Holder or the Selling Agent (as the case may be) must pay (in the case of the

Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

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

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

5.13 Notwithstanding any other provision of this Condition 5 and subject to compliance with the provisions of the Spanish Companies Law and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

6 Optional Redemption

6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 6.

6.2 Subject to Conditions 6.3 and 6.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, on any Distribution Payment Date falling on or after the First Reset Date, at the Redemption Price, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force, including, for the avoidance of doubt, Article 78 of CRR, as amended or restated).

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

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

6.5 The decision to redeem the Preferred Securities must be, subject to Condition 5.1 above, irrevocably notified by the Bank to the Holders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and Condition 13.

The Bank will not give notice under this Condition 6.5 unless, at least 15 days prior to the publication of any notice of redemption, it has delivered to the Agent Bank a certificate signed by two of its duly authorised officers stating that a Capital Event or a Tax Event has occurred, or there is sufficient certainty that it will occur, as the case may be, and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred.

6.6 If the Bank gives notice of redemption of the Preferred Securities, then by 12 noon (CET) on the relevant redemption date, subject to Condition 5.1 above, the Bank will:

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

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

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

(a) Distributions on the Preferred Securities shall cease;

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

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

6.8 The Bank may not give a notice of redemption pursuant to this Condition 6 if a Trigger Event Notice has been given. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 6 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the conversion of the Preferred Securities shall take place as provided under Condition 5. The Bank shall give notice of any such automatic rescission of a redemption notice to the Holders in accordance with Condition 13 as soon as possible thereafter.

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

7 Purchases of Preferred Securities

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

Any Preferred Securities so acquired by the Bank or any member of the Group may, subject to the approval of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in place), be held, resold or, at the option of the Bank or such member of the Group, surrendered to a Paying and Conversion Agent for cancellation.

8 Waiver of Set-off

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

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

9 Undertakings

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

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

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

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

(i) admitted to the Relevant Stock Exchange; or

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

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

(d) issue, allot and deliver Ordinary Shares upon Trigger Conversion subject to and as provided in Condition 5;

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

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

(g) where the provisions of Condition 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, use all reasonable endeavours promptly to appoint such person for such purpose.

10 Meetings of holders

10.1

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

(b) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 13. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (a) specify the terms of the Extraordinary Resolution to be proposed or (b) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, provided that, in the case of (b), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (ii) inform Holders that details of the voting arrangements are available free of charge from the Principal Paying Agent, provided that, in the case of (ii) the final form of such details are available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

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

(d) At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 10.1(c)) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding provided that at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

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

(ii) without prejudice to the provisions of Condition 3 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction or cancellation of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or

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

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

(v) the sanctioning of any scheme or proposal described in Condition 10.2(h)(vi) below; or

(vi) alteration of this proviso or the proviso to Condition 10.1(e) below,

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

(e) If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 10.1(a), be dissolved. In any other case it shall be adjourned to the same day of the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Principal Paying Agent). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.

(f) At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present, provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 10.1(d) the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

(g) Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if ten were substituted for 21 in Condition 10.1(b) and the notice shall state the relevant quorum. Subject to the foregoing it shall not be necessary to give any notice of an adjourned meeting.

10.2

(a) Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.

(b) At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

(c) Subject to Condition 10.2(e) if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

(d) The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business, which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

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

(f) Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the proviso to the definition of "**outstanding**" in the Agency Agreement, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.

(g) Subject as provided in Condition 10.2(f), at any meeting:

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

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

(h) A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to the quorum contained in Conditions 10.1(d) and 10.1(f)), namely:

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

(ii) power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Agency Agreement, these Conditions or the Preferred Securities or otherwise;

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

(iv) power to give any authority or approval which under the provisions of this Condition 10 or the Preferred Securities is required to be given by Extraordinary Resolution;

(v) power to appoint any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;

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

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

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

(j) The expression "**Extraordinary Resolution**" when used in this Condition 10 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll

(k) Subject to Condition 10.2(a), to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

(l) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had transpired shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had transpired at the meeting to have been duly passed or had.

(m) For the purposes of calculating a period of **clear days**, no account shall be taken of the day on which a period commences or the day on which a period ends.

(n) The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit. Notice of any such regulations may be given to Holders in accordance with Condition 13 and/or at the time of service of any notice convening a meeting.

(o) Any modification or waiver of the Conditions in accordance with this Condition 10 will be effected in accordance with the Applicable Banking Regulations and conditional upon any prior approach from the Competent Authority required thereunder.

11 Modification

The Principal Paying Agent and the Bank may agree, without the consent of the Holders, to any modification of the Preferred Securities or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 13 as soon as practicable thereafter.

12 Taxation

12.1 All payments of Distributions and other amounts payable (excluding, for the avoidance of doubt, repayment of principal) in respect of the Preferred Securities by or on behalf of the Bank will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made on the same basis as for payment of any Distribution in accordance with Condition 3) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.

12.2 The Bank shall not be required to pay any additional amounts as referred to in Condition 12.1 in relation to any payment in respect of Preferred Securities:

(a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Preferred Securities 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 Preferred Securities;

(b) to, or to a third party on behalf of, a Holder in respect of whom the Bank 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 Preferred Securities) as it may be required in order to comply with Spanish tax reporting requirements; or

(c) 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;

(d) 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

(e) to, or to a third party on behalf of, a Spanish-resident corporate entity if the Spanish tax authorities determine that the Preferred Securities 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 Conditions, all payments of principal and interest in respect of the Preferred Securities by or on behalf of the Bank will be paid net of 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 any law implementing an intergovernmental approach thereto (such withholding or deduction, a "**FATCA Withholding**"). Neither the Bank nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

For the purposes of this Condition 12, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 13 below.

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

13 Notices

Notices to the Holders of the Preferred Securities shall be valid if published (a) if the rules of the exchange on which the Preferred Securities 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 Preferred Securities 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).

14 Agents

In acting under the Agency Agreement and in connection with the Preferred Securities, the 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 Holders.

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Principal Paying Agent, a successor Agent Bank and additional or successor Paying and Conversion Agents; provided, however, that:

(a) the Issuer shall at all times maintain a Principal Paying Agent and an Agent Bank; and

(b) if and for so long as the Preferred Securities are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of an Agent in any particular place, the Issuer shall maintain an 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 Agents or in their specified offices shall promptly be given to the Holders.

15 Prescription

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

16 Governing Law and Jurisdiction

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

16.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "Proceedings") may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law, nothing contained in this Condition 16 shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

17 Spanish Companies Law

Holders of the Preferred Securities:

17.1 will not benefit from any right as a holder of Preferred Securities arising from article 418 of the Spanish Companies Law; and

17.2 will be deemed to have irrevocably instructed the Principal Paying Agent to take any action and/or to sign or execute and deliver any documents or notices that may be necessary or desirable to comply with and give effect to paragraph 17.1.

USE OF PROCEEDS

The net proceeds of the issue of the Preferred Securities will be used for the Group's general corporate purposes.

CAPITAL ADEQUACY

Capital resources and capital ratios

The following table sets forth details of the Group's qualifying capital at 31 December 2016 and 31 December 2015. The total qualifying capital of the Group amounted at 31 December 2016 to €11,852 million, representing a surplus of €4,966 million over its minimum capital requirement.

	2016	2015	Year to year change
	(in thousands of euros)		*(per cent.)*
Capital	702,019	679,906	3.25
Reserves	11,874,214	11,428,739	3.90
Bonds convertible into shares	-	-	-
Non-controlling interests	21,490	24,339	(11.71)
Deductions	(2,265,363)	(1,923,514)	17.77
CET1 resources	**10,332,360**	**10,209,470**	**1.20**
CET1 (%)	12.0	11.5	
Preference shares, convertible bonds and deductions	-	-	-
Tier one resources	**10,332,360**	**10,209,470**	**1.20**
Tier I (%)	12.0	11.5	
Tier two resources	**1,519,237**	**1,207,912**	**25.77**
Tier II (%)	1.8	1.4	-
Capital base	**11,851,597**	**11,417,382**	**3.80**
Minimum capital requirement	6,885,598	7,101,497	(3.04)
Capital surplus	**4,965,998**	**4,315,885**	**15.06**
BIS ratio (%)	**13.8**	**12.9**	**7.06**
Risk weighted assets (RWA)	**86,069,980**	**88,768,713**	**(3.04)**

As of 31 December 2016, the Bank's individual CET1 phased-in capital ratio was 14.91 per cent.

The following table sets forth details of the reconciliation of net equity with regulatory capital of the Group:

	2016	2015
	(in millions of euros)	
Equity	12,926	12,275
Valuation adjustments	107	456
Non-controlling interests	50	37
Total net equity	**13,083**	**12,767**
Goodwill and intangibles	(2,128)	(1,989)
Other adjustments	(623)	(569)
Regulatory accounting adjustments	**(2,751)**	**(2,558)**
Common equity tier 1	**10,332**	**10,209**
Additional Tier 1 capital	-	-
Tier 2 capital	**1,519**	**1,208**
Total regulatory capital	**11,852**	**11,417**

The table below sets forth details of the leverage ratio of the Group as of 31 December 2016 and 31 December 2015:

	2016	2015
	(in thousands of euros)	
Tier 1 capital	10,332,360	10,209,470
Exposure	217,918,574	210,369,669
Leverage ratio	**4.74%**	**4.85%**

SREP Requirements

Following the most recent SREP carried out by the ECB in November 2016, the Bank has been informed by the ECB that it is required to maintain as from 1 January 2017 a CET1 phased-in capital ratio of 7.375 per cent. on a consolidated basis. This CET1 capital ratio of 7.375 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" (1.5 per cent.) including the capital conservation buffer (1.25 per cent.) and the requirement arising from its consideration as O-SII (0.125 per cent.).

Furthermore, based on the note published by the Bank of Spain on 7 November 2016, which designates systemic institutions for 2017 and sets their capital buffers in line with the EBA Guidelines on criteria for the assessment of O-SIIs (EBA/GL/2014/10), included in Standard 14 and Annex 1 to Bank of Spain Circular 2/2016, Banco Sabadell is considered an O-SII. As a result, the Bank will be required to maintain a phased in O-SII buffer of 0.125 per cent. during 2017, 0.1875 per cent. during 2018 and 0.25 per cent. during 2019.

On 23 March 2017, the Bank of Spain published a note setting the countercyclical capital buffer of Spanish credit institutions, which was maintained at 0 per cent.

DESCRIPTION OF THE ISSUER AND ITS GROUP

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 Law. The Issuer is subject to special legislation applicable to credit entities in general; the supervision, control and regulation of 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 UK and, to a lesser extent, in Florida. Below is a description of the Group's main recent acquisitions and divestitures:

Sale of 100 per cent. of its share capital in Sabadell United Bank, N.A. (pending to be closed)

On 28 February 2017, Banco Sabadell has sold its full holding in its retail banking subsidiary Sabadell United Bank, N.A. to Iberiabank Corporation, at a price of $1,025 million.

The agreement reached states that Iberiabank Corporation will make a minimum cash payment of $803 million and the remaining difference will be paid in Iberiabank Corporation shares. In the event that the remaining difference represents more than 4.9 per cent. of the total capital stock of Iberiabank Corporation, Banco Sabadell will receive 4.9 per cent. of the total capital stock of Iberiabank Corporation plus the outstanding difference in cash. As a result of this transaction, Banco Sabadell will achieve a net capital gain of approximately €447 million.

The transaction is expected to close in the second half of this year, once the necessary approvals have been received from the regulatory authorities.

Sale of 100 per cent. of its share capital in Dexia Sabadell, S.A. (closed April 2016)

On 13 April 2016, Banco Sabadell transferred its full holding (20.994 per cent. of its share capital) in Dexia Sabadell, S.A. to Dexia Crédit Local, S.A. ("**Dexia**"), at a price of €52,390 thousand, representing gross gains for Banco Sabadell in the same amount, under the terms ratified by the arbitration award.

This transfer was the result of Banco Sabadell exercising its put option on 6 July 2012 on its stake in Dexia, holder of the remaining share capital of the institution referred to above.

The transfer of shares by Banco Sabadell and their acquisition by Dexia occurred after having sent the relevant communications to the corresponding regulatory authorities.

Sale of 100 per cent. of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros

On 22 June 2016, the Sabadell Group reached an agreement to sell 100 per cent. of its shares in Mediterráneo Vida, Sociedad de Seguros y Reaseguros, a life insurance and saving/retirement insurance undertaking that has managed a portfolio with no new business since 2014 to a consortium led by Ember. The closing of this transaction is subject to obtaining the corresponding regulatory authorisation and as of the date of this Offering Circular it is still pending.

Sale of shares of Banco Comercial Português, S.A.

Banco Sabadell has made a private placement of 38,577,892 shares of Banco Comercial Português, S.A., of which it is a direct and indirect holder, representing 4.08 per cent. of its share capital and voting rights.

The resulting sale price of the offering was of €1.15 per share, representing a total of €44,365 thousand for the total shares, without any significant impact (gross losses of approximately €8.3 million) in the income statement and balance sheet of the Bank.

The settlement of the sale took place on 15 December 2016, with the delivery of shares in exchange for the payment of the agreed price to Banco Sabadell.

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 United Kingdom Treasury to Lloyds Banking Group plc ("**Lloyds**") in 2008 and 2009 constituted unauthorized State aid in accordance with European regulations. As a result, the European Commission sanctioned a restructuring plan submitted by the United Kingdom 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 had to take place before a set date (31 December 2015, with the possibility of extending it by the end of 2016 depending on the reduction of Lloyds' stake in TSB as of the date).

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 on 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 Banco 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 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.

As of the date of the takeover, TSB was a bank focused on retail clients and small businesses, with a distribution share of approximately 7 per cent. among United Kingdom offices, a Common Equity Tier 1 Capital Ratio of 19.5 per cent. and a comfortable financing position, with a loan to deposit ratio of 76.6 per cent.

This acquisition has enabled the Group to enter the United Kingdom's banking market, which is attractive due to a stable and well-defined regulatory framework, constant profitability levels and a good prospective as regards future growth. The Group predicts that its resources and experience in relation to the financing of SMEs acquired on the Spanish banking market will lead to the strengthen of TSB's growth and efficiency strategy.

Important developments have been made during 2016 regarding the establishment of TSB's technological platform and the project is successfully progressing.

With this acquisition, the Sabadell Group has taken a leap forward in its strategy of expanding into other countries, which was one of the pillars of its Triple Plan for 2014-2016 (transformation, profitability and internationalisation). Following the TSB acquisition, as of 31 December 2016, 32 per cent. of its loans are located outside Spain.

Creation of Banco Sabadell, S.A., Institución de Banca Multiple (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, as from 2016, provides personal banking services.

The total investment maintained by the Group in this Bank at 31 December 2016 reached €91,554 thousand (€57,375 thousand in 2015).

Business Overview

Banco Sabadell is the fourth largest privately owned banking group in Spain measured by total assets (based on the 2016 annual consolidated accounts which are publicly available on Banco Sabadell's website), with total consolidated assets and total net customer loans of €212.5 billion and €145.2 billion, respectively, as of 31 December 2016. Banco de Sabadell, S.A. is the parent company of the Group, which comprised, as at 31 December 2016, a total of 159 companies that the Sabadell Group fully consolidates. In addition, there were 32 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 2016, was 11.9 million (11.4 million as of 31 December 2015). As of 31 December 2016, the Group operated a total of 2,767 branches (2,119 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 2016, a total of 2,105 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 €26,881 million as at 31 December 2016.

The Sabadell Group operates in Spain through different brands. 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 2016 and 2015 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 €2,411 million and €2,863 million, respectively, and its consolidated profit attributable to the parent company was €710 million and €708 million, respectively.

Sabadell Strategy

Triple Plan (2014-2016)

Following a period of organic growth, in order to evolve from a specialist bank to a universal bank and to build up a franchise in Florida, Banco Sabadell found itself facing the following challenges:

(a) problematic assets had significantly increased in amount;

(b) profitability had been hit by the takeovers carried out; and

(c) assets were mainly concentrated in Spain.

In this scenario, a new strategic plan was drawn up to take on these challenges based on three pillars.

The first pillar of the Triple Plan revolved around transformation of the Bank's balance sheet, its commercial model and its production model. Transformation of the balance sheet was concentrated on reducing the number of NPLs and foreclosed real estate assets. To foster commitment to maintaining long-term relations with customers, Banco Sabadell also deployed a new commercial and production model that enabled it to increase productivity and efficiency, improving the customer experience in all segments, without reducing the quality of service for which the Bank has always been known.

The second area of focus in the business plan was improving profitability. After experiencing a major leap in size in the past few years (growing from 1.9 billion customers in 2007 to 6.4 billion in 2013), Banco Sabadell decided to focus on consolidating the domestic business and making newly acquired businesses profitable.

Combined with these two major axes, the Triple Plan set as the third axis that of internationalisation, laying the groundwork for this to happen with entry into new markets.

In terms of transformation of the balance sheet, doubtful loans and problematic assets have been significantly reduced, exceeding the objectives of the Triple Plan, and NPL ratio has dropped to single-digit levels, 6.1 per cent. This has been possible due to their active management, which has proved to be a good strategy. Banco Sabadell is the bank with the most improved NPL ratio since 2013 and the second best at reducing problematic assets.

As for transformation of the production model, efficiency improves at a constant FX and is situated as one of the best in the Spanish banking sector. Optimising the operating model and having a highly dynamic branch network has created synergies following the considerable growth in size in recent years.

With regard to commercial transformation, the Bank has led in digital transformation, developing technological capabilities with visible results and which allow the Bank to continue improving the customer experience (trust, service delivery, transparency and convenience). When it comes to customer experience, Banco Sabadell is the leader of the Net Promoter Score ("**NPS**") ranking, for SMEs as well as for large corporates, having significantly improved with personal customers.

Profitability: Solid consolidation of the domestic business with significant improvement in the customer margin. This has been possible thanks to pro-active management of prices (interest and charges) together with growth in market shares, whilst always maintaining a high quality service. The Bank has kept strong its interest margin, being the best performing bank by customer margin in Spain. This, combined with a solid position of solvency and liquidity. Over these three years, the Bank has also managed to triple its results in a macro-economic and industry environment that is more highly pressured than expected.

Internationalisation: The Triple Plan has represented the definitive leap for Banco Sabadell in international presence. As the main milestones: the acquisition of British bank TSB, and entry into the Mexican market after receiving the licence to operate as a retail bank. Two representative offices have also been opened in Colombia and Peru, with the aim of generating corporate business.

As of today then, over 30 per cent. of the Group's lending is generated abroad (24 per cent. in the United Kingdom and 8 per cent. in America and the rest), well exceeding the target that Banco Sabadell has set of 10 per cent. foreign lending at the end of the Triple Plan.

Strategy update

Banco Sabadell has presented an update of its strategy which is divided into two phases. The first phase is focused on 2017, this being a year of transition for completion of TSB's technological migration. And a second phase with a view to 2020.

Priorities for 2017

In 2017, the Bank wants to channel its efforts into successfully completing the TSB migration. Having a standalone and newly created platform will enable TSB to significantly improve its time to market, reduce production costs and ultimately to improve the customer experience, this being a lever for differentiation from competitors.

The Bank will also focus on protecting its results in 2017. The Bank will centre on generating retail business, protecting margins and increasing charges, containing costs and prioritising investment. Non-productive assets will also continue to be reduced.

At the same time, the Issuer will continue leading in digital and commercial transformation with the aim of improving the excellent customer experience, for which the Issuer has always been known.

2020 vision

For 2020, the Bank has drawn up six strategic pillars adapted to the level of maturity of each of its markets (Spain, the United Kingdom and Americas).

In relation to domestic business, the strategy for 2020 is to grow market share for personal and business customers, defending the margin, strengthening Banco Sabadell's brand positioning and digital capacity in a more 'pull' market, and to transform the retail model with a focus on gaining efficiency.

The second fundamental aim of the plan for the Spanish business is to manage its non-productive assets by value, reaching a normalised level of cost of risk in 2020. For this, the Bank is opting for anticipatory management of arrears and dealing with problematic assets by segment.

For the United Kingdom business, the Bank will focus on achieving significant business growth, taking advantage of technological autonomy as a lever for differentiation, improving efficiency whilst maintaining the focus on managing costs, and using the Group's know-how and leadership in the SMEs segment to launch that line of business in the United Kingdom.

In terms of the America business, the Bank's endeavours will be centred on promoting the subsidiary in Mexico. An ambitious growth plan has been established for the business and corporate banking arm, given the good track record for the business and sound foundations already built. The personal customer business will also be launched, with a digital and innovative offering.

Given their significance for the Group, the three markets share as strategic axes that of focusing on an efficient and effective management model deploying the technological capacities needed for the development of digital businesses, together with leadership in the cultural transformation within the company and the development of in-house talent.

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. In 2015, the Bank 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, SabadellUrquijo 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 United Kingdom and Banking Business in America. Banking business in Spain includes the following business units: Commercial Banking, Corporate Banking and Markets and Private Banking.

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 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.

During the 2016 financial year, the Bank has worked with the aim of maintaining the same rate of customer acquisition than in previous years and achieving the target of being the main bank for all of its clients, establishing long-term relationships and providing a high-quality service. In addition, a new model of Multi-location offices (*oficinas Multiubicación*) has been implemented, as well as the Retail Banking of Active Management (*Banca Retail de Gestión Activa*), which enables the Bank to meet its clients' requirements remotely.

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

Companies, Businesses and Public Sector

The new relations model, as well as an intense commercial activity focused on the addition of new customers, has allowed Banco Sabadell's customer stake to keep growing this year. In this regard, during 2016, 96,239 companies became Banco Sabadell's new customers.

According to the information available by the end of the third quarter, the market stake of Banco Sabadell in the companies' segment has been 33.5 per cent. The Group's market stake in large companies was 72 per cent. in terms of number of clients (according to internal estimates, as of 30 September 2016). The fact of having a specialized network of offices across the territory has been decisive for these achievements.

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.

The Bank's dedication to achieving a high standard of customer care is further demonstrated by having a network of 58 offices around Spain specialising in the management of the large companies' sector of its operations.

The Bank's focus, in line with the commitment coveted 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 rigour. The new relations model is highly appreciated by the Bank's clients, as deduced from the feedback received in recent surveys.

In 2016, the Group has significantly increased their media appearances (1,107 appearances) and the impact on social networks and active participation in events of entrepreneurship throughout the Spanish territory. In 2016, BStartup organised and/or participated in 139 events. In addition, the financial year closed with a total of 49 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, €304 million between assets and liabilities have been managed, an increase of 89 per cent. relative to the previous year.

Individuals

As in 2015, one of the main objectives in 2016 of the individuals' segment has been to maintain a high rate of customer acquisition, with special focus on attracting quality, which meant adding 475,000 new individual customers and maintaining Banco Sabadell's position as the main bank for our 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 terms of products, it is worth mentioning, among others, the launch of two new services which allow the Bank's clients to make payments via mobile phone (*SabadellWallet*) and making transactions between individuals (*Bizum*), as well as the electronic signature for individual customers. The result of all these initiatives has produced a high improvement in terms of customer experience and satisfaction.

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's 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.

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		
	2016	**2015**	**Year to year change**
	(in millions of euros)		*(per cent.)*
Net interest income	2,212	2,142	3.3
Gross income	2,819	2,738	2.9
Operating margin	1,435	1,343	6.9
Pre-tax result	1,133	700	62.0
Other key figures			
Loans and advances to customers	76,928	77,708	(1.0)
Resources	95,726	94,053	1.8

Corporate Banking

Corporate Banking offers a range of products and services to large corporate and financial institutions in Spain and abroad (in 16 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		
	2016	**2015**	**Year to year change**
	(in millions of euros)		*(per cent.)*
Net interest income	162	164	(1.0)
Gross income	215	197	9.0
Operating margin	177	167	5.7
Pre-tax result	90	71	26.8
Other key figures			
Loans and advances to customers	11,432	11,702	(2.3)
Resources	6,431	6,191	3.9

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: during 2016 it has continued to contribute value through personalised advisory services and the offering of specific private banking products, such as mutual funds, discretional 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 2016 year-end, investment funds under management of Spanish law amounted to €14,122.1 million, 7.9 per cent. above 2015 year-end, and significantly more than the increase in the sector, which has been 7 per cent. With this volume of managed equity, the Sabadell Group has achieved an investment fund share of nearly 6 per cent.

Treasury and Capital Markets: 2016 has been a year of consolidation of its activities, both the traditional ones and those included in the Triple Plan for 2014-2016. In 2016, the Bank has increased its activity in foreign currency operations with customers, increasing the accumulated income by 17 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. During 2016, the Bank has intensified its participation in deals with issuers, acting as agent bank and intermediary in different kind of transactions. In 2016 the Bank has remained on the top ranking among market members, with a market stake in excess of 11.80 per cent., only surpassed by Morgan Stanley and BBVA (with a market stake of 12.99 per cent. and 12.52 per cent., respectively, according to Banco Sabadell's 2016 annual accounts).

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

	As of and for the year ended 31 December		
	2016	**2015**	**Year to year change**
	(in millions of euros)		*(per cent.)*
Net interest income	49	45	9.7
Gross income	237	235	0.8
Operating margin	124	131	(5.1)
Pre-tax result	124	123	1.2
Other key figures			
Loans and advances to customers	938	981	(4.4)
Resources	15,554	16,854	(7.7)
Securities	5,884	6,231	(5.6)

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 2016, 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. At the end of 2016, and for the first time, the number of real estate assets has been reduced in comparison with the same number as of the beginning of that year. This is a demonstration of the positive prospective as regards the real estate market for the following years.

With regards to debt recovery assets in default status, it is particularly important to note that in 2016 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.

During 2016, Solvia decided to provide intermediation services (sale and purchase transactions and tenancy) to individual customers and companies. Solvia has adopted several decisions with this aim; among others, reinforcing its teams and resources and opening 11 street offices.

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

	As of and for the year ended 31 December		
	2016	**2015**	**Year to year change**
	(in millions of euros)		*(per cent.)*
Net interest income	(31)	(45)	(30.8)
Gross income	60	61	(2.6)
Operating margin	(108)	(82)	32.1
Pre-tax result	(908)	(844)	7.6
Other key figures			
Loans and advances to customers	6,041	8,413	(28.2)
Real-estate portfolio (gross)	9,035	9,234	(2.2)
Resources	213	301	(29.2)

Banking business in the United Kingdom

TSB is focused on the retail business in the United Kingdom. As of 31 December 2016, TSB had approximately 5 million customers. TSB holds a multichannel national distribution model, including 587 offices as of 31 December 2016 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 8,060 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 business also includes the "mortgage enhancement" which is a separate set of mortgages allocated to TSB as part of the restructuration 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 growth of resources has contributed to increase the investment to clients, supporting TSB's strategy and reflecting the success of TSB's mortgage mediation platform.

During 2016, TSB's resources have increased as a consequence of the success of the "Classic Plus" account, reaching a share of 6.4 per cent. of the bank accounts opened in the United Kingdom this year.

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

	As of and for the year ended 31 December		
	2016	**2015**	**Year to year change**
	(in millions of euros)		*(per cent.)*
Net interest income	1,051	540	94.7
Gross income	1,209	615	96.6
Operating margin	334	121	175.9
Pre-tax result	223	62	261.5
Other key figures			
Loans and advances to customers	34,447	36,062	(4.5)
Resources	34,320	35,249	(2.6)

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. Banco Sabadell 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 were opened in Colombia and Peru to strengthen the corporate banking and structured financing business.

In 2016, 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.

In December 2016, Sabadell International Branch acquired a portfolio of about $800 million in business volume to Intau Private Banking, consolidating Banco Sabadell as a reference for private banking customers located in Latin America.

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

	As of and for the year ended 31 December		
	2016	**2015**	**Year to year change**
	(*in millions of euros*)		(*per cent.*)
Net interest income	250	216	15.7
Gross income	306	255	19.9

Operating margin	141	113	25.1
Pre-tax result	127	92	38.8
Other key figures			
Loans and advances to customers	9,261	7,374	25.6
Resources	7,815	6,769	15.5

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 performs corporate and companies banking transactions and offers 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 2016, it had a total of 2,767 branches, 2,119 branches located throughout Spain (compared with 2,873 and 2,320 branches as of 31 December 2015 and 2014, respectively) and 648 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 2016 and 2015, respectively, reflecting the Group's most recent acquisitions:

Brand	Number of Branches 31 December	
	2016	2015
SabadellAtlantico	1,583	1,647
SabadellCAM	—	—
SabadellHerrero	166	178
SabadellGuipuzcoano	128	131
SabadellSolbank	105	105
Sabadell/Lloyds Bank	—	—
Sabadell Gallego	123	129
BancoGallego	—	—
SabadellUrquijo	12	12
ActivoBank	2	2
Total (Spain)	2,119	2,204

Approximately 106 branches closed during 2016 (compared to 61 branches closed during 2015) 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 2016 and 2015, respectively, was as follows:

Autonomous Region	Number of Branches 31 December	
	2016	2015
Andalusia	142	143
Aragon	34	38
Principality of Asturias	134	146
Balearic Islands	62	65
Basque Country	105	107
Canary Islands	30	30
Cantabria	6	6
Castile-La Mancha	23	23
Castile and León	64	64
Catalonia	638	674
Extremadura	7	6
Ceuta	1	1
Galicia	123	129
La Rioja	8	8

Autonomous Region	Number of Branches 31 December	
	2016	**2015**
Madrid	201	209
Melilla	1	1
Murcia	141	148
Navarre	18	19
Valencian Community	381	387
Total (Spain)	2,119	2,204

In addition, the Group's international network comprised a further 648 branches as of 31 December 2016 (669 offices as of 31 December 2015). As of 31 December 2016, the Group had 587 branches of TSB and 27 branches of Sabadell United Bank, all of them in the Miami area (27 branches as of 31 December 2015).

During 2016, 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 one 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.

Nearly 42.2 per cent. of active customers access the Bank's services digitally, 86 per cent. of transactions are made operational through digital channels and 19.4 per cent. of customers have mobile as the main access channel. 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 2016, the Group had 3,123 self-service cash machines, 2,733 in branches and 390 remote or non-branch ATMs. Its ATM network comprises a significant portion of its customer transactions, and 92.6 per cent. of all cash withdrawals of less than €600 were made from ATMs in 2016. The Group also had, as of that date, 371 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 2016 more than 3,270 individual customers and 694 companies had enrolled on the Group's online banking service BS Online. The number of transactions and enquiries made through BS Online continues to grow, having increased a 19 per cent. during this year, which means more than 1,800,000 transactions.

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 2016, the Group had a total of 1,654 thousand active users, an increase of 43 per cent. compared to 2015.

Direct Branch. The Group received and handled over 2,673,621 enquiries through its telephone live channel throughout 2016, 17 per cent. more than in 2015. The telephone helpline achieved a service level (calls answered as a proportion of calls received) of 96 per cent. and a response rate (calls answered in less than 20 seconds) of 77 per cent.

E-mail. In 2016, the Group received over 667,025 enquiries by e-mail, 44 per cent. more than 2015 with a service level (e-mails answered as a proportion of e-mails received) of 91 per cent.

Online chat. Throughout 2016, the Group received over 117,776 enquiries through online chat, 214 per cent. more than in 2015. Service level (chats answered as a proportion of chats received) was 95 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 2016, Banco Sabadell continued to expand its presence reaching 301,496 followers on social media (Twitter, Facebook, YouTube, LinkedIn and Google +) as of 31 December 2016 (200,000 as of 31 December 2015). 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 31 December 2016, Banco Sabadell's issued share capital of €702,018,899.50 was comprised of 5,616,151,196 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 to 18 of Law 10/2014 require that clearance be obtained from the ECB 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 the Bank concerning the ownership of the Bank's shares by major shareholders, based on the current share capital of the Bank as of 31 December 2016, composed of 5,616,151,196 shares.

Name of Shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
BlackRock, Inc	0	208.735	3.72
Winthrop Securities Limited	0	192.209	3.42

Name of indirect Shareholder	Name of direct Shareholder	Number of voting rights
BlackRock, Inc	Several subsidiaries of Blackrock, Inc.	208.735
Winthrop Securities Limited	Fintech Investments Limited	192.209

Agreement Among Shareholders

In accordance with Article 531 of the Spanish Companies Law, 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 to which are party Héctor María Colonques Moreno, Miguel Bósser Rovira, José Oliu Creus, Isak Andic Ermay, José Manuel Lara Bosch's legal heirs 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 2016, the parties to the above-mentioned shareholders' agreement collectively held a 2.26 per cent. stake in and of the voting rights of the Bank.

Treasury Stock

As of 31 December 2016 the Bank holds directly 51,901,666 of its shares as treasury stock, which represents 1.061 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 14 members. The business address for each member of its Board of Directors listed below is Plaça de Sant Roc, nº 20, PC 08201, Sabadell (Barcelona), Spain.

The following table sets forth, as of the date of this Offering Circular, 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	BanSabadell Holding, S.L., Sociedad Unipersonal	Chairman
José Javier Echenique Landiribar	Deputy-Chairman	—	—
Jaime Guardiola Romojaro	CEO	SabCapital, S.A.C.V., SOFOM, E.R.	Chairman
		Banco Sabadell, S.A. I.B.M. (Mexico)	Chairman
Aurora Catá Sala	Director	—	—
Joaquín Folch- Rusiñol Corachán	Director	—	—
M. Teresa Garcia- Milà Lloveras	Director		—
José Manuel Lara García	Director	—	—
Joan Llonch Andreu	Director	BancSabadell d'Andorra, S.A.	Director

Name of the Director	Current position in the Board	Company belonging to the Group	Position in the Company belonging to the Group
		BanSabadell Holding, S.L.U.	Director
		Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Vice-Chairman
David Martínez Guzmán [(1)]	Director	—	—
José Manuel Martínez Martínez	Director	—	—
José Ramón Martínez Sufrategui	Director	—	
José Luis Negro Rodríguez	Director	BanSabadell Financiación, E.F.C., S.A.	Chairman
		BanSabadell Holding, S.L.U.	Director
		Sociedad Rectora de la Bolsa de Valores de Barcelona	Director
David Vegara Figueras	Director	—	—
Manuel Valls Morató	Director	—	—
Miguel Roca I Junyent	Non-voting Secretary	—	—
María José García Beato	Non-voting Deputy-Secretary	BanSabadell Holding, S.L.U.	Deputy-Secretary of the Board of Directors
		Emisores Españoles	Representative of a director (legal entity)
		Sabadell United Bank, National Association	Director

Note:

(1) Proprietary director representing the company Fintech Investment Ltd.

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 Offering Circular, all Board members, 14 out of 14 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 Garcia- Milà Lloveras	Aurora Catá Sala	Aurora Catá Sala	David Vegara Figueras
Member	José Javier Echenique Landiribar	Joan Llonch Andreu	Joaquín Folch-Rusiñol Corachán	Joaquín Folch-Rusiñol Corachán	M. Teresa Garcia- Milà Lloveras
Member	Jaime Guardiola Romojaro	José Ramón Martínez Sufrategui	Joan Llonch Andreu	M. Teresa Garcia-Milà Lloveras	Joan Llonch Andreu
Member	José Manuel Martínez Martínez	—			
Member	José Luis Negro Rodríguez	—	—	—	
Secretary	María José García Beato(1)	Miquel Roca i Junyent(1)	Miquel Roca i Junyent(1)	María José García Beato(1)	—
Number of meetings held in 2015	**36**	**7**	**12**	**11**	**9**

Note:

(1) 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: (i) supervising the implementation of the Risk Appetite Framework; (ii) 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; (iii) 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; (iv) making quarterly reports to the full Board on the levels of risks taken, investments carried out and on the evolution of such investments, 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; (v) monitoring and detecting any breaches of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect; and (vi) 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 table below shows, as of 31 December 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	Through other financial instruments	Total Stake
		(% of Voting Rights)		
José Oliu Creus[(1)]	0.051%	0.061%	0.008%	0.119%
José Javier Echenique Landiribar	0.002%	—	—	0.002%
Jaime Guardiola Romojaro[(2)]	0.011%	0.005%	0.007%	0.023%
Aurora Catá Sala	—	—	—	—
Joaquín Folch-Rusiñol Corachán[(3)]	—	0.226%	—	0.226%
M. Teresa Garcia-Milà Lloveras	0.001%	—	—	0.001%
José Manuel Lara García	—	—	—	—
Joan Llonch Andreu	0.028%	—	—	0.028%
David Martínez Guzmán[(4)]	—	—	—	—
José Manuel Martínez Martínez	0.001%	—	—	0.001%
José Ramón Martínez Sufrategui[(5)]	0.033%	0.013%	—	0.047%
José Luis Negro Rodríguez	0.043%	—	0.004%	0.047%
Manuel Valls Morató	—	—	—	—
David Vegara Figueras	0.002%	—	—	0.002%
Total	0.172%	0.305%	0.019%	0.496%

Note:

(1) Through Port Avinyon, S.L.

(2) Through Indiriadin World, S.L.

(3) Through Luvat XXI, S.L.U.

(4) David Martínez was appointed as a Board Member representing Fintech Investments, Ltd., who holds a direct stake in the Bank of 3.422 per cent. as of 13 February 2017.

(5) Through his spouse.

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 2016 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.

Alternative Performance Measures

In addition to the financial information contained in this Offering Circular prepared in accordance with the EU-IFRS, certain Alternative Performance Measures ("**APMs**") are included in the 2016 audited consolidated annual accounts which are incorporated by reference to this Offering Circular.

The APMs are as defined by the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057) (the "**ESMA Guidelines**"). The ESMA Guidelines define APMs as a financial measure of past or future financial performance, of financial situation or of cash flows, except for a financial measure defined or detailed in the applicable financial reporting framework.

The Issuer uses certain APMs, which have not been audited, for the purposes of contributing a better understanding of the company's financial evolution. Banco Sabadell considers that these APMs provide useful information for investors, securities analysts and other interested parties in order to better understand the Group's business, financial position, profitability, results of operations, the quality of its loan portfolio, the amount of equity per share and their progression over time.

These measures should be considered additional information, and in no event do they substitute the financial information prepared under the EU-IFRS. Furthermore, these measures can, both in their definition and in their calculation, differ from other similar measures calculated by other companies and, therefore, may not be comparable.

MARKET INFORMATION

The Ordinary Shares of Banco Sabadell are listed on the Spanish Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, which are regulated markets for the purposes of MiFID, under the ticker symbol "*SAB*".

The Spanish securities market for equity securities consists of the Spanish Stock Exchanges (as defined in the Conditions) and the Automated Quotation System ("**AQS**"). The AQS links the four Spanish Stock Exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The Spanish securities markets are regulated by the CNMV.

AQS

The AQS was founded in 2 November 1995, substituting the computer assisted trading system known as *Sistema de Interconexion Bursatil*, which had been in place since 1989. The principal feature of the system is the computerised matching of bid and offer orders at the time of placement. Each order is completed as soon as a matching order occurs, but can be modified or cancelled until completion. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by Sociedad de Bolsas, S.A. ("***Sociedad de Bolsas***"), a company owned by the companies that manage the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of one of the Spanish Stock Exchanges.

In a pre-opening session held from 8:30 to 9:00 am (Madrid time) each trading day, an opening price is established for each equity security traded on the AQS based on a real-time auction in which orders can be placed, modified or cancelled, but not completed. During this pre-opening session, the system continuously displays the price at which orders would be completed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price cannot be determined, the best bid and offer price and their respective associated trading volumes are disclosed instead. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the admission of new securities to trade on the AQS) and subject to prior notice to the CNMV, Sociedad de Bolsas may establish an opening price disregarding the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price or modify the reference price.

The computerised trading hours, known as the open session, range from 9.00 a.m. to 5.30 p.m. (CET). The AQS sets out two ranges of prices for each security named "static" and "dynamic" in order to monitor the volatility of the trading price of each security. During the open session, the trading price of a security is permitted to fluctuate up to a maximum so-called "*static*" range of the reference price (the price resulting from the closing auction of the immediately preceding trading day or the immediately preceding volatility auction in the current trading session), provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "*dynamic*" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and ask orders for a security within the computerised system which exceed any of the above "*static*" and/or "*dynamic*" ranges, trading on the security is automatically suspended and a new auction, or volatility auction, is held where a new reference price is set, and the "*static*" and "*dynamic*" ranges will apply over such new reference price. The "*static*" and "*dynamic*" ranges applicable to each specific security are set up and reviewed periodically by Sociedad de Bolsas. From 5:30 pm to 5:35 pm (Madrid time), known as the closing auction, orders can be placed, modified or cancelled, but no trades can be completed.

Between 5:30 pm and 8:00 pm (Madrid time), trades may occur outside the computerised matching system without prior authorisation of Sociedad de Bolsas (provided such trades are however disclosed to Sociedad de

Bolsas), at a price within the range of 5 per cent. above the higher of the average price and closing price for the day and 5 per cent. below the lower of the average price and closing price for the day if (i) there are no outstanding bids or offers, respectively, on the system matching or improving the terms of the proposed off-system transaction; and (ii) among other requirements, the trade involves more than €300,000 and more than 20 per cent. of the average daily trading volume of the relevant security during the preceding three months. These off-system trades must also relate to individual orders from the same person or entity and shall be reported to Sociedad de Bolsas before 8:00 pm (Madrid time).

Trades may take place at any time (with the prior authorisation of Sociedad de Bolsas) and at any price if:

- the trade involves more than €1.5 million and more than 40 per cent. of the average daily trading volume of the relevant securities during the preceding three months;
- the transaction results from a merger or spin-off, or from the restructuring of a group of companies;
- the transaction is executed for the purpose of settling litigation or completing a complex set of contracts; or
- for any other reason which justifies the authorization of such transaction at the discretion of Sociedad de Bolsas.

Information with respect to the computerised trades between 9:00 am and 5:30 pm (Madrid time) is made public immediately, and information with respect to off-system trades is reported to the Sociedad de Bolsas by the end of the trading day and published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Clearing, Settlement and Book Entry System

The Spanish clearing, settlement and book entry system has been recently adapted by Law 11/2015 and Royal Decree 878/2015, of October 2, (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*) to the provisions set forth in Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories, amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012. Following the implementation of this reform transactions carried out on the AQS continue to be settled by Iberclear, as central securities depository, and are cleared by BME Clearing, S.A., as central counterparty ("**CCP**"). Investors are urged to contact their agent or custodian in Spain as soon as possible to make the arrangements necessary for registering the shares in their name on the transaction date.

Iberclear and BME Clearing, S.A., are owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a listed holding company which also holds a 100 per cent. interest in each of the Spanish official secondary markets.

Shares of listed Spanish companies are represented in book entry form. The book entry system is a two tier level registry: the keeping of the central book entry register corresponds to Iberclear and the keeping of the detail records correspond to the participating entities in Iberclear.

Access to become a participating entity is restricted to (i) credit institutions, (ii) investment services companies which are authorized to render custody and administration of financial instruments, (iii) the Bank of Spain, (iv) the General Administration and the General Social Security Treasury, (v) other duly authorized central securities depositories and central clearing counterparties and (vi) other public institutions and private entities when expressly authorized to become a participating entity in central securities depositories.

The central registry managed by Iberclear reflects: (i) one or several proprietary accounts which will show the balances of the participating entities' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the participating entities hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; and (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement of orders. Each participating entity, in turn, maintains the detail records of the owners of such shares.

According to the above, Spanish law considers the owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name.
- the investor appearing in the records of the participating entity as holding the shares; or
- the investor appearing in the records of Iberclear as holding shares in a segregated individual account.

BME Clearing is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions vis-à-vis the participants designated in such buy or sell instructions. The CCP then generates and send to Iberclear the relevant settlement instructions.

The settlement and book-entry registration platform managed by Iberclear, which operates under the trade name of ARCO, receives the settlement instructions from BME Clearing and forwards them to the relevant participating entities involved in each transaction. ARCO operates under a T+2 settlement standard, by which any transactions must be settled within two business days following the date on which the transaction was completed.

Obtaining legal title to shares of a company listed on the Spanish Stock Exchanges requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner's request the relevant participating entity must issue a legitimation certificate (*certificado de legitimación*). If the owner is a participating entity or a person holding shares in a segregated individual account, Iberclear is in charge of the issuance of the certificate regarding the shares held in their name.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositories for Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, Societé Anonyme, Luxembourg ("**Clearstream**") and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, the Management Regulations of Clearstream and the instructions to Participants of Clearstream, as amended from time to time, as applicable. Subject to compliance with such regulations and procedures, those persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited ("**investors**") shall have the right to receive the number of shares equal to the number of shares credited in their accounts, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees, as described below, if any, and once the relevant recording in the book-entry registries kept by the members of Iberclear has occurred.

Under Spanish law, only the holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear, or its nominees, or Clearstream, or its nominees, will, respectively, be the sole record holder of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, until investors exercise their rights to withdraw such shares and record their ownership rights over them in the book-entry records kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction of any applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. See "*Taxation*".

Each of Euroclear and Clearstream will endeavour to inform investors of any significant events of which they become aware affecting the shares recorded in the name of Euroclear, or its nominees, and Clearstream, or its nominees, and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as they shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of proxies, powers of attorney or other similar certificates for delivery to the Bank, or its agent; or (ii) exercise by Euroclear or its nominees and Clearstream or its nominees of voting rights in accordance with the instructions provided by investors.

If the Bank offers or causes to be offered to Euroclear, or its nominees, and Clearstream, or its nominees, acting in their capacity as record holders of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavour to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of its regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or alternatively, such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

DESCRIPTION OF THE SHARE CAPITAL

The following summary provides information concerning the Issuer's share capital and briefly describes certain significant provisions of the Issuer's bylaws (*estatutos sociales*) and Spanish corporate law, the Spanish Companies Law, Spanish Law 3/2009 on Structural Amendments of Private Companies (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*), the Spanish Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (texto refundido de la Ley de Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre) as amended (the "**Spanish Securities Market Law**") and Royal Decree 878/2015 on clearing, settlement and registry of negotiable securities in book-entry form, and transparency requirements for issuers of securities admitted to trading on an official secondary market (*Real Decreto 878/2015, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*).

At the date of this Offering Circular, the issued share capital of the Issuer is €702,018,899.50 represented by a single series and class of 5,616,151,196 shares, with a nominal value per ordinary share of €0.125, fully subscribed and paid up (the "**Ordinary Shares"**). All of the Ordinary Shares have equal voting and economic rights. Residents and non-residents of Spain may hold and vote shares of the Issuer subject to the restrictions set forth below.

As of the date of this Offering Circular, there is the following outstanding issuance of convertible instruments made by Banco Sabadell.

On 30 September 2013, Banco Sabadell agreed to take part in the management of the subordinated debt and preference shares of Banco Gallego, S.A. within the resolution plan for NCG Banco Gallego.

Banco Sabadell offered investors the alternative of subscribing new Banco Sabadell mandatory convertible subordinated bonds in Series III/2013 ("**III/2013 Bonds**") or Series IV/2013 ("**IV/2013 Bonds**"), depending on the type of Banco Gallego securities in their possession. Applications were received for 50,954,400 III/2013 Bonds and 70,720,450 IV/2013 Bonds.

The nominal values at which they were issued and the nominal outstanding balance of mandatory convertible subordinated bonds are as follows:

Mandatory convertible bonds	**Opening nominal balance**	**Outstanding nominal balance**	
		2016	**2015**
		(in thousands of euros)	
Bonds III/2013	50,954	-	43,238
Bonds IV/2013	70,720	17,680	35,360

III/2013 Bonds matured on 28 October 2016. The IV/2013 Bonds mature on 28 October 2017, and 25% of the initial nominal value must be converted annually. The annual nominal interest rate corresponding to the III/2013 and IV/2013 bonds is 5%.

Historical price of the Ordinary Shares

The following table sets forth the price of the Issuer's Ordinary Shares for the years 2015 and 2016 and for the period from January 2017 to March 2017:

	Minimum	Maximum	Final
March 2017	€1.295	€1.742	€1.718
December 2016	€1.065	€1.81	€1.323
September 2016	€1.065	€1.81	€1.14
June 2016	€1.089	€1.810	€1.179
March 2016	€1.375	€1.774	€1.582
December 2015	€1.577	€2.499	€1.635
September 2015	€1.577	€2.499	€1.642
June 2015	€2.053	€2.499	€2.165
March 2015	€2.053	€2.499	€2.279

Major Shareholders

At the date of this Offering Circular, the Issuer's direct and indirect significant shareholders are the following:

Denomination	% of voting rights linked to the shares			% of voting rights linked to financial instruments	% of total voting rights
	% Total	% Direct	% Indirect	%	
BLACKROCK INC	3.000	0.000	3.000	0.998	3.998
WINTHROP SECURITIES LIMITED	4.941	0.000	4.941		4.941

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Information regarding significant shareholders of the Issuer can be found on the CNMV's website (www.cnmv.es).

Banco Sabadell's major shareholders do not have voting rights which are different from those held by the rest of its shareholders.

The Issuer does not know the existence of any natural or legal person which exercises or can exercise control over the Bank in terms of Article 5 of the Spanish Securities Market Law.

Form and Transfer

The shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise their shareholders' rights, though joint holders are jointly and severally liable vis-à-vis the Issuer for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry of shares reflecting for each of its participating entities (*entidades participantes*) the number of shares held by such entities for their own

account, as well as the amount of such shares held on behalf of their customers. Each participating entity in turn maintains a detailed register of the owners of such shares. The shares must be entered in the corresponding register in the name of the person or persons that own them.

As a general rule, transfers of shares quoted on a Spanish Stock Exchange must be made through or with the participation of a member of a Spanish Stock Exchange that is an authorised broker or dealer by recording these transfers in the book-entry registry maintained by Iberclear and its participating entities. The transfer of shares may be subject to certain fees and expenses.

Dividend and Liquidation Rights

Holders of the Issuer's Ordinary Shares have the right to participate in distributions of the Issuer's profits and proceeds from a liquidation, proportionally to their paid-up share capital. However, there is no right to receive a minimum dividend.

Payment of dividends is proposed by the Board of Directors and must be authorized by the Issuer's shareholders at a general shareholders' meeting. Holders of Ordinary Shares participate in such dividends from the date agreed by a general shareholders' meeting. Additionally, interim dividends (*dividendo a cuenta*) may also be distributed among shareholders directly upon approval by the Board of Directors provided that: (i) there is sufficient liquidity to pay the interim dividend; and (ii) the amount distributed does not exceed the amount resulting from deducting from the earnings booked since the end of the previous year, the sum of previous years' losses, the amounts earmarked for the legal or bylaws' reserves, and the estimated tax due on the aforesaid earnings. The Spanish Companies Law requires each company to allocate at least 10.0 per cent. of its net income each year to a legal reserve until the balance of such reserve is equivalent to at least 20.0 per cent. of such company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. In accordance with Article 947 of the Spanish Commercial Code of 22 August 1885, as amended (the "**Spanish Commercial Code**"), the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

With regard to the tax implications derived from dividends paid by the Issuer. See "*Taxation*".

The following table sets forth the dividends distributed by the Issuer for the years 2015, 2016 and 2017:

Year	Type	Ex-dividend day	Gross amount per Ordinary Share (euro)	Net amount per Ordinary Share (euro)
2017				
7 April 2017	Supplementary remuneration 2016	5 April 2017	0.030	0.0243
2016				
30 December 2016	Interim dividend	28 December 2016	0.020	0.0162
22 April 2016	Scrip dividend "*Sabadell Dividendo Flexible*"	5 April 2016	0.048[1]	0.0389
14 April 2016	Supplementary remuneration 2015	7 April 2016	0.020[2]	0.020
2015				
22 June 2015	Scrip dividend "*Sabadell Dividendo Flexible*"	2 June 2015	0.039[3]	0.0312
15 June 2015	Supplementary remuneration 2014	6 June 2015	0.010[4]	0.010

[1] Amount at which Banco Sabadell acquired the rights to free assignment. Delivery proportion: 1 share for every 34 shares.

[2] Distribution in kind of part of the issue premium through the delivery of shares held in treasury stock. Reference value: €1.665. Delivery proportion: 1 share for every 83.25 shares.

[3] Amount at which Banco Sabadell acquired the rights to free assignment. Delivery proportion: 1 share for every 59 shares.

[4] Distribution in kind of part of the issue premium through the delivery of shares held in treasury stock. Reference value: €2.3388. Delivery proportion: 1 share for every 233.88 shares.

Attendance and Voting at General Shareholders' Meetings

Each €125 of nominal value of the share capital of the Issuer (equivalent to 1,000 shares) entitles the shareholder to attend the General Shareholders' Meeting. According to the Issuer's General Shareholders' Meeting Regulations, shareholders that amount less than the minimum amount may group together to constitute the minimum and grant proxy to any of them, or to another shareholder that is entitled to attend the Issuer's General Shareholders' Meeting. Shares may be voted by written proxy, and proxies must be indicated at the bottom or on the back of the attendance card (*tarjeta de admisión*), which must contain or be attached to the Agenda. Proxies must be signed by the shareholder, provided that the shareholder's signature is authenticated or is recognized by the Issuer. The shareholder may give express instructions regarding his vote for each item on the agenda. In the absence of express instructions, the proxy shall be entitled to vote as he sees fit, except in the event of conflict of interest.

Each 1,000 shares of the Issuer's share capital entitle the shareholder to one vote.

Pursuant to the Issuer's bylaws, the Issuer's General Shareholders' Meeting Regulations and the Spanish Companies Law, ordinary annual general shareholders' meetings shall be held during the first six months of each financial year on a date fixed by the Board of Directors. Extraordinary general shareholders' meetings may be called by the Board of Directors whenever it deems appropriate, or at the request of shareholders representing at least 3.0 per cent. of the Issuer's issued share capital. Following Admission, notices of all general shareholders' meetings will be published in the Commercial Registry's Official Gazette (*Boletín Oficial del Registro Mercantil*) or in one of the main newspapers of Spain, on our corporate website and on the website of CNMV, at least one month's prior to the date when the meeting is to be held, except as discussed in the following paragraph.

The interval between the first and second calls for a General Shareholders' Meeting must be at least 24 hours. The notice must include the date and place of the first call, the agenda of the meeting, the date on which shareholders need to be registered as such in order to attend and vote at the meeting, the place and form in which information related to the proposed resolutions can be obtained by the shareholders, the webpage where such information will be available, and clear instructions on how shareholders can attend and vote in the General Shareholders' Meeting. It may also state the date on which, if applicable, the meeting is to be held on the second call.

Shareholders representing at least 3.0 per cent. of the share capital of the Issuer have the right to request the publication of an amended notice including one or more additional agenda items to the Ordinary General Shareholders' Meeting and to add new resolution proposals to the agenda of any General Shareholders' Meeting, within the first five days following the publication of the agenda.

At Ordinary General Shareholders' Meetings, shareholders are asked to approve the financial statements for the previous fiscal year, the management and the application of the profit or loss attributable to the Issuer. All other matters that can be decided by a General Shareholders' Meeting may be addressed at either Ordinary or Extraordinary General Shareholders' Meetings. Shareholders can vote on these matters at an Ordinary General Shareholders' Meeting if such items are included on the meeting's agenda. The by-laws of the Issuer provide that, in order to facilitate the shareholders' attendance to the meetings, shareholders shall be provided with attendance cards. Attendance cards can be obtained at any time up to five days before a given General Shareholders' Meeting. Attendance cards shall show the number of votes to which the shareholder is entitled on the basis of one vote for every thousand (1,000) shares.

The Issuer's bylaws provide that, on the first call of an ordinary or extraordinary general shareholders' meeting, attendance in person or by proxy of shareholders representing at least 25.0 per cent. of the Issuer's

voting capital will constitute a quorum. If the meeting is not quorate on the first call, the meeting can be reconvened in second call (provided the meeting notice included both first and second call), which according to the Spanish Companies Law requires no quorum. However, according to the Issuer's bylaws, a resolution in a general shareholders' meeting to issue convertible bonds or bonds that constitute a share of group earnings, reduce or increase the share capital, change the legal form of the Issuer, merge or de-merge the Issuer or, generally, make any amendment to the bylaws, requires attendance in person or by proxy of shareholders representing at least 50.0 per cent. of the Issuer's voting capital on first call, and attendance in person or by proxy of shareholders representing at least 25.0 per cent. of the Issuer's voting capital on second call. In the case of attendance in person or by proxy of shareholders representing more than 50.0 per cent. of the Issuer's voting capital, an absolute majority shall suffice to pass the aforementioned resolutions. On second call, and in the event that less than 50.0 per cent. of the Issuer's voting capital attends in person or by proxy, such resolutions may only be passed upon the vote of shareholders representing two-thirds of the attending share capital. Resolutions in all other cases are passed by a simple majority of the votes corresponding to the capital stock present or represented at such meeting.

A General Shareholders' Meeting at which 100 per cent. of the share capital is present or represented is validly constituted even if no notice of such meeting was given, and, upon unanimous agreement, shareholders may consider any matter at such meeting.

Under the Spanish Companies Law, shareholders who voluntarily aggregate their shares so that the share capital so aggregated is equal to or greater than the result of dividing the total share capital by the number of directors have the right, provided there are vacancies on the Board of Directors, to appoint a corresponding proportion of the members of the Board of Directors (disregarding fractions). Shareholders who exercise this right may not vote on the appointment of other directors.

A resolution passed at a General Shareholders' Meeting is binding on all shareholders, although a resolution which is (i) contrary to law or the bylaws or the internal regulations of the Issuer, or (ii) prejudicial to the interest of the company and beneficial to one or more shareholders or third parties, may be contested. Damage to company's interest is also caused when the resolution, without causing damage to corporate assets, is imposed in an abusive manner by the majority. An agreement is understood to have been imposed in an abusive manner when, rather than responding reasonably to a corporate need, the majority adopts the resolution in their own interests and to the unjustifiable detriment of the other shareholders. The right to contest would apply to those who were shareholders at the time when the resolution was taken (provided they hold at least 0.1 per cent. of the share capital), directors and interested third parties. In the event of resolutions contrary to public order, the right to contest would apply to any shareholders (even if they acquired such condition after the resolution was taken), and any director or third party.

In certain circumstances (such as change or significant amendment of the corporate purpose, transformation or transfer of registered address abroad), the Spanish Companies Law gives dissenting or absent shareholders (including non-voting shareholders) the right to withdraw from the Issuer. If this right were exercised, the Issuer would be obliged to purchase the relevant shares at the average market price of the shares in the last quarter in accordance with the procedures established under the Spanish Companies Law.

Pre-emptive rights and Increases of Share Capital

Pursuant to the Spanish Companies Law and the Issuer's bylaws, shareholders have pre-emptive rights to subscribe for any new shares issued against monetary contributions and for any new bonds convertible into shares. Such pre-emptive rights may be excluded when so required by the corporate interest under special circumstances by a resolution passed at a general shareholders' meeting or by the board of directors (when the company is listed and the General Shareholders' Meeting delegates to the board of directors the right to

increase the capital stock or issue convertible bonds and exclude pre-emptive rights), in accordance with Articles 308, 417, 504, 505, 506 and 511 of the Spanish Companies Law.

Furthermore, the pre-emptive rights, in any event, will not be available in an increase in share capital against non-cash contribution, by means of capitalization of credit rights, or to honor the conversion into shares of convertible bonds or in a merger in which shares are issued as consideration. Pre-emptive rights are transferable, may be traded on the AQS of the Spanish Stock Exchanges and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices.

The General Shareholders' Meeting held on 31 March 2016 resolved to grant the Board of Directors of the Issuer powers as broad as may be required by law so that, in accordance with the provisions of article 297.1.b) of the Spanish Companies Law, it may increase share capital, on one or several occasions, in the amount(s), on the date(s) and on the terms and conditions that the Board of Directors may determine, with power to delegate to the Executive Committee or the director(s) up to the maximum limit and within the maximum term contemplated in the Spanish Companies Law.

The General Shareholders' Meeting held on 31 March 2016 resolved to increase its share capital in the amount of € 15.877.095,125 charged to reserves.

The General Shareholders' Meeting held on 28 May 2015 resolved to grant the Board of Directors of the Issuer powers as broad as may be required by law so that, in accordance with the provisions of article 297.1.b) of the Spanish Companies Law, it may increase share capital, on one or several occasions, in the amount(s), on the date(s) and on the terms and conditions that the Board of Directors may determine, with power to delegate to the Executive Committee or the director(s) up to the maximum limit and within the maximum term contemplated in the Act.

The General Shareholders' Meeting held on 28 May 2015 resolved to increase its share capital in the amount of € 15.877.095,125 charged to reserves.

Shareholder Actions

Under Spanish law, shareholders must generally bring action against the directors as well as any other actions against the Issuer or challenging corporate resolutions before the courts of the judicial district of the Issuer's registered address (currently Sabadell, Spain).

Under the Spanish Companies Law, directors are liable to the company, shareholders and creditors for their acts or omissions that are illegal or violate the bylaws and for failure to carry out their legal duties with diligence. Directors have such liability even if the transaction in connection with which the acts or omissions occurred is approved or ratified by the shareholders.

The liability of the Directors is joint and several, except to the extent any Director can demonstrate that he or she did not participate in decision-making relating to the transaction at issue, was unaware of its existence or being aware of it, did all that was possible to mitigate any damages or expressly disagreed with the decision-making relating to the transaction.

Legal Restrictions on Acquisitions of Shares in Spanish Banks

Certain provisions of Spanish law require clearance by the competent authority prior to the acquisition by any individual or corporation of a significant holding of shares of a Spanish bank. The decision-making authority for the assessment of the proposed acquisition, formerly attributed to the Bank of Spain, now corresponds to the ECB by virtue of Regulation No. 1024/2013.

Any natural or legal person or such persons acting in concert, who have taken a decision either to acquire, directly or indirectly, a significant holding (*participación significativa*) in a Spanish bank or to further increase, directly or indirectly, such a significant holding in a Spanish bank as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 30 per cent. or 50 per cent. or so that the bank would become its subsidiary, must first notify the ECB (through the Bank of Spain), indicating the size of the intended holding and other relevant information. A significant holding for these purposes is defined as a direct or indirect holding in a Spanish bank which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that bank. In accordance with Article 23 of Royal Decree 84/2015, of 13 February, in any case, "*significant influence*" shall be deemed to exist when there is the capacity to appoint or dismiss a board member.

As soon as the Bank of Spain receives the notice, the Bank of Spain will request the Spanish Anti-Money Laundering Authority (*Servicio Ejecutivo de la Comisión para la Prevención del Blanqueo de Capitales e Infracciones Monetarias* – "**SEPBLAC**") for a report, and the SEPBLAC will submit such report within 30 business days from the day following the day of receipt of such request.

The ECB has 60 business days after the Bank of Spain acknowledges the receipt of any such notice (the Bank of Spain will acknowledge receipt in written within two business days from the date of receipt of the notification by the Bank of Spain to the extent such notification includes all the information required by Article 24 of Royal Decree 84/2015) to object to a proposed transaction. In case the notification does not have all the information required, the acquirer will be required to provide the outstanding information within ten business days. Such objection may be based on finding the acquirer unsuitable on the basis of its commercial or professional reputation, its solvency or the transparency of its corporate structure, among other things. If no such objection is raised within the 60 business day-period, the authorisation is deemed to have been granted.

The above assessment term may be suspended in one occasion, between the request of information and the submission of information, for a maximum term of 20 business days (or, under certain circumstances, this term may be of 30 business days).

If the acquisition is carried out and the required notice is not given to the ECB (through the Bank of Spain) or if the acquisition is carried out before the 60 business day-period following the giving of notice elapses, or if the acquisition is opposed by the ECB, then there shall be the following consequences: (A) the voting rights corresponding to the acquired shares may not be exercised or, if exercised, will be deemed null; (B) the ECB may seize control of the bank or replace its Board of Directors; and (C) a fine may be levied on the acquirer.

Any natural or legal person, or such persons acting in concert, who has acquired, directly or indirectly, a holding in a Spanish bank so that the proportion of the voting rights or of the capital held reaches or exceeds 5 per cent., must immediately notify in writing the Bank of Spain and the relevant Spanish bank, indicating the size of the acquired holding.

Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a significant holding in a Spanish bank must first notify the Bank of Spain, indicating the size of his intended reduced holding. Such a person shall likewise notify the Bank of Spain if he has taken a decision to reduce his qualifying holding so that the proportion of the voting rights or of the capital held would fall below 20 per cent., 30 per cent. or 50 per cent. or so that the bank would cease to be its subsidiary. Failure to comply with these requirements may lead to sanctions being imposed on the defaulting party.

Spanish banks are required, on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below one of the thresholds referred to above, to inform the Bank of Spain of those acquisitions or disposals.

Furthermore, credit entities are required to inform the Bank of Spain as soon as they become aware of any acquisition or transfer of their share capital that crosses any of the above percentages. In addition, credit entities must inform the Bank of Spain, during the month following each natural quarter, about their shareholding specifying all shareholders considered financial institutions by the end of such month or those who have more than 0.25 of the bank's share capital (or 1 per cent. in case of credit unions). If the ECB determines at any time that the influence of a person who owns a qualifying holding of a bank may adversely affect that bank's management or financial situation, it may request that the Spanish Ministry of Economy and Competitiveness: (1) suspend the voting rights of such person's shares for a period not exceeding three years; (2) seize control of the bank or replace its Board of Directors; or (3) in exceptional circumstances revoke the bank's licence. A fine may also be levied on the person owning the relevant significant shareholding.

Furthermore, any person that has directly or indirectly acquired 5 per cent. or more of the share capital of a Spanish credit institution must immediately inform in writing both to the Bank of Spain and to the relevant credit institution indicating the amount of the shareholding.

Reporting Requirements

Pursuant to Royal Decree 1362/2007, of October 19, any individual or legal entity which, by whatever means, purchases or transfers shares which grant voting rights in our company, must notify the Issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a threshold of 3.0 per cent., 5.0 per cent., 10.0 per cent., 15.0 per cent., 20.0 per cent., 25.0 per cent., 30.0 per cent., 35.0 per cent., 40.0 per cent., 45.0 per cent., 50.0 per cent., 60.0 per cent., 70.0 per cent., 75.0 per cent., 80.0 per cent. and 90.0 per cent. of the Issuer's total voting rights.

The individual or legal entity obliged to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four (4) trading days from the date on which the individual or legal entity acknowledged or should have acknowledged the circumstances that generate the obligation to notify (Royal Decree 1362/2007 deems that the obliged individual or legal entity should have acknowledge the aforementioned circumstance within two (2) trading days from the date on which the transaction was entered into, regardless of the date on which the transaction takes effect).

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it. In such a case, the transaction is deemed to be acknowledged within two (2) trading days from the date of publication of the relevant fact disclosure ("*hecho relevante*") regarding such transaction.

Should the individual or legal entity effecting the transaction be a non-resident of Spain, notice must also be given to the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (a department of the Ministry of Economy and Competitiveness). See "*Restrictions on Foreign Investment*" below.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity which acquires, transfers or holds, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the Issuer and the CNMV of the holding of a significant stake in accordance with applicable regulations.

Should the person or group effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of July 5), the threshold that triggers the obligation to disclose the acquisition or transfer of the Issuer's Ordinary Shares is reduced to 1.0 per cent. (and successive multiples thereof).

All members of the Board of Directors must report to both the Issuer and the CNMV any percentage or number of voting rights in the Issuer held by them at the time of becoming or ceasing to be a member of the Board of Directors within five (5) trading days. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of the Issuer's shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any of our compensation plans. Members of our senior management must also report any stock-based compensation that they may receive pursuant to any of our compensation plans or any subsequent amendment to such plans

In addition, pursuant to Article 19 of Regulation (EU) No 596/2014 of 16 April 2014 on market abuse ("**MAR**"), persons discharging managerial responsibilities as well as persons closely associated with them (*vínculo estrecho*) must similarly report to the Issuer and the CNMV any acquisition or disposal of the Issuer's shares, derivative or financial instruments linked to the Issuer's shares regardless of the size, within three (3) business days after the date of the transaction is made. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, developing the LMV, regarding market abuse, which defines senior management (*directivos*) as those "high-level employees in positions of responsibility with regular access to insider information (*información privilegiada*) related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer".

In certain circumstances established by Royal Decree 1362/2007, the notification requirements on the acquisition or transfer of shares also apply to any person or legal entity that, directly or indirectly, and independently of the ownership of the shares or financial instruments, may acquire, transmit or exercise the voting rights granted by those shares or financial instruments, provided that the aggregated proportion of voting rights reaches, increases above or decreases below, the percentages set forth by Spanish law.

Moreover, pursuant to Article 30.6 of Royal Decree 1362/2007, in the context of a takeover bid, the following transactions should be notified to the CNMV: (i) any acquisition reaching or exceeding 1.0 per cent. of the voting rights of the Issuer, and (ii) any increase or decrease in the percentage of voting rights held by holders of 3.0 per cent. or more of the voting rights in the Issuer. The CNMV will immediately make this information public.

Acquisition of own shares

If an acquisition or series of acquisitions of the Issuer's Ordinary Shares reaches or exceeds or causes our and our affiliates' holdings to reach or exceed 1.0 per cent. of the voting shares, the Issuer must notify its final holding of treasury shares to the CNMV. If such threshold is reached as a result of a series of acquisitions, such reporting obligation will only arise after the closing of the acquisition which, taken together with all acquisitions made since the last of any such notifications, causes our and our affiliates' holdings to exceed 1.0 per cent. of the voting shares. Sales and other transfers of the Issuer's treasury shares will not be deducted in the calculation of such threshold. This requirement would also apply if the shares were acquired by one of our majority owned subsidiaries.

Moreover, pursuant to Spanish Companies Law, the audited financial statements of a company must include a reference to any treasury shares.

Shareholders' Agreements

The LMV and Articles 531, 533 and 535 of the Spanish Companies Law require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a General Shareholders' Meeting or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares of listed companies.

If the Issuer's shareholders enter into such agreements with respect to the Issuer's Ordinary Shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and to the CNMV, file such agreements with the appropriate commercial registry and publish them through a relevant fact disclosure (*hecho relevante*). Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the LMV.

Such a shareholders' agreement will have no effect with respect to the regulation of the right to vote in General Shareholders' Meetings and restrictions or conditions on the free transferability of shares and bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the affected company.

Short Selling Regulation

In accordance with Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps ("**Regulation 236/2012**") (as further supplemented by several delegated regulations regulating technical aspects necessary for its effective enforceability and to ensure compliance with its provisions), net short positions on shares listed on the Spanish Stock Exchanges equal to, or in excess of, 0.2 per cent. of the relevant issuer's share capital and any increases or reductions thereof by 0.1 per cent. are required to be disclosed to the CNMV. If the net short position reaches 0.5 per cent., and also at every 0.1 per cent. above that, the CNMV will disclose the net short position to the public. Regulation 236/2012 restricts uncovered short sales in shares, providing that a natural or legal person may enter into a short sale of a share admitted to trading on a trading venue only where one of the conditions established in Article 12 of the referred Regulation has been fulfilled.

The notification or disclosure mentioned above shall be made not later than at 15.30 (CET) on the following trading day.

Notification is mandatory even if the same position has been already notified to the CNMV in compliance with transparency obligations previously in force in that jurisdiction.

The information to be disclosed is set out in Table 1 of Annex I of Delegated Regulation 826/2012, according to the format approved as Annex II of this Regulation. The information will be published, where appropriate, on a web page operated or supervised by the CNMV.

Moreover, pursuant to Regulation 236/2012, where the CNMV considers that (i) there are adverse events or developments that constitute a serious threat to financial stability or to market confidence (serious financial, monetary or budgetary problems, which may lead to financial instability, unusual volatility causing significant downward spirals in any financial instrument, etc.); and (ii) the measure is necessary and will not be disproportionately detrimental to the efficiency of financial markets in view of the advantages sought, it may, following consultation with ESMA, take any one or more of the following measures:

- impose additional notification obligations by either (a) reducing the thresholds for the notification of net short positions in relation to one or several specific financial instruments; and/or (b) requesting the parties involved in the lending of a specific financial instrument to notify any change in the fees requested for such lending; and

- restrict short selling activity by either prohibiting or imposing conditions on short selling.

In addition, according to Regulation 236/2012, where the price of a financial instrument has fallen significantly during a single day in relation to the closing price on the previous trading day (10.0 per cent. or more in the case of a liquid share), the CNMV may prohibit or restrict short selling of financial instruments for a period not exceeding the end of the trading day following the trading day on which the fall in price occurs.

Finally, Regulation 236/2012 also vests powers to ESMA in order to take measures similar to the ones described above in exceptional circumstances, when the purpose of these measures is to deal with a threat affecting several EU member states and the competent authorities of these member states have not taken adequate measures to address it.

Share Repurchases

Pursuant to the Spanish Companies Law, the Issuer may only repurchase the Issuer's own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorized by the general shareholders' meeting in a resolution establishing the maximum number of shares to be acquired, the titles for the acquisition, the minimum and maximum acquisition price and the duration of the authorization, which may not exceed 5 years from the date of the resolution;

- the repurchase, including the shares already acquired and currently held by the Issuer, or any person or company acting in its own name but on our behalf, must not bring the Issuer 's net worth below the aggregate amount of the Issuer's share capital and legal or non-distributable bylaws' reserves. For these purposes, net worth means the amount resulting from the application of the criteria used to draw up the financial statements, subtracting the amount of profits directly allocated to such net worth, and adding the amount of share capital subscribed but not called and the share capital par value and issue premium recorded in the Issuer's accounts as liabilities;

- the aggregate value of the Ordinary Shares directly or indirectly repurchased, together with the aggregate par value of the Ordinary Shares already held by the Issuer, must not exceed 10.0 per cent. of the Issuer's share capital; and

- Ordinary Shares repurchased for valuable consideration must be fully paid-up. A repurchase shall be considered null and void if (i) the shares are partially paid-up, except in the case of free repurchase, or (ii) the shares entail ancillary obligations.

Treasury shares do not have voting rights or economic rights (for example, the right to receive dividends and other distributions and liquidation rights). Such economic rights except the right to receive bonus shares, will accrue proportionately to all of the Issuer's shareholders. Treasury shares are counted for purposes of establishing the quorum for general shareholders' meetings as well as majority voting requirements to pass resolutions at general shareholders' meetings.

Regulation 596/2014 of April 16, repealing, among others, Directive 2003/6/EC of the European Parliament and the European Council of January 28, on insider dealing and market manipulation, establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in

those markets. This regulation maintains an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in a member state. Commission Delegated Regulation (EU) 2016/1052, of 8 March 2016, implements Regulation 596/2014 with regard to the regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures. According to the provisions included in the Commission Delegated Regulation (EU) 2016/1052, in order to benefit from the exemption, an issuer implementing a buy-back program must comply with the following requirements:

Prior to the start of trading in a buy-back program, the issuer must ensure the adequate disclosure of the following information:

- The purpose of the program. According to Article 5.2 of Regulation 596/2014, the buy-back program must have as its sole purpose (a) to reduce the capital of the issuer; (b) to meet obligations arising from debt financial instruments convertible into equity instruments; or (c) to meet obligations arising from share option programs, or other allocations of shares, to employees or to members of the administrative, management or supervisory bodies of the issuer or of an associate company;
- The maximum pecuniary amount allocated to the program;
- The maximum number of shares to be acquired; and
- The period for which authorization for the program has been granted.

The issuer must ensure that the transactions relating to the buy-back program meet the conditions included on Article 3 of the Commission Delegated Regulation (EU) 2016/1052. Specifically, that the purchase price is not higher than the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out. Furthermore, issuers must not purchase on any trading day more than 25 per cent. of the average daily volume of shares on the corresponding trading venue.

Issuers shall not, for the duration of the buy-back program, engage on (a) selling of own shares; (b) trading during the closed periods referred to in Article 19. 11 of Regulation 596/2014; and (c) trading where the issuer has decided to delay the public disclosure of inside information.

On 19 December 2007 the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbor for the purposes of market abuse regulations.

In addition, on 18 July 2013, the CNMV published certain guidelines for securities issuers and financial intermediaries acting on their behalf regarding the “discretionary transactions with treasury shares” (outside of the buy- back program regulation). These guidelines are in line with the buy-back program regulation in respect of price, limits and volumes and include certain restricted periods and a rule of separated management of the trading activity.

Provision of Information to Shareholders

Under Spanish law, shareholders are entitled to receive certain information, including information relating to any amendment of the by-laws, an increase or reduction in the share capital, the approval of the financial statements and other major corporate events or actions.

Restrictions on Foreign Investment

Exchange controls and foreign investments were, with certain exceptions, completely liberalized by Royal Decree 664/1999, of April 23 (*Real Decreto 664/1999, de 23 de abril*), which was approved in conjunction with Law 18/1992, of July 1 (the "**Spanish Foreign Investment Law**"), bringing the existing legal framework on foreign investments in line with the provisions of the Treaty of the European Union.

According to regulations adopted under the Spanish Foreign Investment Law, and subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies as well as transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls). Foreign investors who are not resident in a tax haven are only required to file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (*Dirección General de Comercio e* Inversiones) within the Ministry of Economy and Competitiveness *(Ministerio de Economía y Competitividad*) following an investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares (in book-entry form) have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991, of July 5), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market;
- investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50.0 per cent. of the capital of the Spanish company in which the investment is made.

The Spanish Council of Ministers (*Consejo de Ministros*), acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorization from the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of July 4, on the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering ("**Law 19/2003**"), generally provides for the liberalization of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of the Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Exchange Control Regulations

Pursuant to Royal Decree 1816/1991, of December 20, relating to economic transactions with non-residents as amended by Royal Decree 1360/2011 of October, 7, and EC Directive 88/361/EEC, charges, payments or

transfers between non-residents and residents of Spain must be made through a registered entity, such as a bank or another financial institution registered with the Bank of Spain and/or the CNMV (*entidades registradas*), through bank accounts opened abroad with a foreign bank or a foreign branch of a registered entity, in cash or by check payable to bearer. All charges, payments or transfers which exceed €6,010 (or its equivalent in another currency), if made in cash or by check payable to bearer, must be notified to the Spanish exchange control authorities.

TAXATION

The following is a general description of certain tax considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities whether in those countries or elsewhere, nor does it address the tax consequences applicable to all investor categories, some of whom may be subject to special rules. Prospective Holders of the Preferred Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Spain of acquiring, holding and disposing of Preferred Securities and receiving payments of interest, principal and/or other amounts under the Preferred Securities and with converting them into Ordinary Shares as well as the tax aspects associated with owning and subsequently transferring the Ordinary Shares. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

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

Taxation in the Kingdom of Spain

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Offering Circular:

If:

(a) of general application, Additional Provision One of Law 10/2014, of 26 June on the management, supervision and solvency of credit institutions ("**Law 10/2014**"), as well as Royal Decree 1065/2007 ("**Royal Decree 1065/2007**"), of 27 July, approving the general regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes as amended by Royal Decree 1145/2011, of 29 July;

(b) for individuals with tax residency in Spain who are personal income tax ("**Personal Income Tax**") tax payers, Law 35/2006, of 28 November, on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Resident Income Tax Law and Wealth Tax Law, as amended (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March, promulgating the Personal Income Tax Regulations as amended, along with Law 19/1991, of 6 June, on Wealth Tax, as amended, and Law 29/1987, of 18 December on Inheritance and Gift Tax, as amended;

(c) for legal entities resident for tax purposes in Spain which are corporate income tax ("**CIT**") taxpayers, Law 27/2014, of 27 November, on CIT "**CIT Law**"), and Royal Decree 634/2015, of 10 July, promulgating the CIT Regulations (the "**CIT Regulations**"); and

(d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax ("**Non-Resident Income Tax**") taxpayers, Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the Non-Resident Income Tax Law, as amended (the "**Non-Resident Income Tax Law**") and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident

Income Tax Regulations, as amended, along with Law 19/1991, of 6 June, on Wealth Tax as amended, and Law 29/1987, of 18 December, on Inheritance and Gift Tax, as amended.

Whatever the nature and residence of the Holder of a beneficial interest in the Preferred Securities, the acquisition and transfer of the Preferred Securities as well as the subscription, acquisition and subsequent transfer of Ordinary Shares will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from value added tax, in accordance with Law 37/1992, of 28 December, regulating such tax.

Tax treatment of the Preferred Securities

1. **Individuals with tax residency in Spain**

1.1 ***Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,001 and €50,000, and 23 per cent. for taxable income exceeding €50,000. As a general rule, both types of income are subject to a withholding tax on account at the current rate of 19 per cent.

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

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

When calculating the net income, expenses related to the management and deposit of the Preferred Securities will be deductible, excluding those pertaining to discretionary or individual portfolio management.

According to Section 44.5 of Royal Decree 1065/2007, the Issuer will make interest payments to individual holders who are resident for tax purposes in Spain without withholding provided that the relevant information about the Preferred Securities set out in Annex I is submitted by the Paying and Conversion Agent in a timely manner. In addition, income obtained upon the transfer, redemption or repayment of the Preferred Securities may also be paid without withholding.

Notwithstanding the above, in the case of Preferred Securities held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities or income obtained upon the transfer, redemption or repayment of the Preferred Securities may be subject to withholding tax at the current rate of 19 per cent. which will be made by the depositary or custodian.

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

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are individuals resident in Spain for tax purposes.

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

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*). Therefore, they should take into account the value of the Preferred Securities which they hold as at 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Wealth Tax will apply in 2018 unless such exemption is revoked.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. The applicable rates range between 7.65 per cent. and 81.6 per cent., although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

2. **Legal Entities with tax residency in Spain**

2.1 ***Corporate Income Tax (Impuesto sobre Sociedades)***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal entities with tax residency in Spain for CIT purposes in accordance with the rules for CIT.

The current general tax rate according to CIT Law is 25 per cent. This general rate will not be applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions (which will be taxed at the rate of 30 per cent.). Special rates apply in respect of certain types of entities (such as qualifying collective investment institutions).

Income obtained by Spanish resident corporate investors from financial assets listed on an official OECD market will not be subject to withholding tax in accordance with Section (s) of the CIT Regulations.

In accordance with Section 44.5 of Royal Decree 1065/2007, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold on income payments to Spanish CIT taxpayers provided that the relevant information about the Preferred Securities set out in Annex I is submitted by the Paying and Conversion Agent in a timely manner.

However, in the case of Preferred Securities held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Preferred Securities and income derived from the transfer, redemption or repayment of the Preferred Securities

may be subject to withholding tax at the current rate of 19 per cent. such withholding will be made by the depositary or custodian, if the Preferred Securities do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) dated 27 July 2004 which requires a withholding to be made.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are legal persons or entities resident in Spain for tax purposes.

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

Spanish resident legal entities are not subject to Wealth Tax.

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

Legal entities with tax residency in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Preferred Securities in their taxable income for Spanish CIT purposes.

3. **Individuals and Legal Entities with no tax residency in Spain**

3.1 ***Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)***

(a) *Non-Spanish resident investors acting through a permanent establishment in Spain*

Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are the same as those for Spanish CIT taxpayers.

The tax treatment applicable to the income obtained will be the one described above under "*Taxation in the Kingdom of Spain – Legal entities with tax residency in Spain – Corporate Income Tax (Impuesto sobre Sociedades)*".

(b) *Non-Spanish resident investors not acting through a permanent establishment in Spain*

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax and from withholding tax. In order for such exemption to apply it is necessary to comply with the information procedures, in the manner detailed under "*Information about the Preferred Securities in Connection with Payments*-" as set out in article 44 of Royal Decree 1065/2007.

Reporting obligations

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Preferred Securities who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Preferred Securities through a permanent establishment in Spain.

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

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax during the tax year 2017, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although some reductions may apply.

However, non-Spanish resident individuals will be exempt from Wealth Tax in respect of the Preferred Securities which income is exempt from Non-Resident Income Tax as described above.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Wealth Tax will apply in 2018 unless such exemption is revoked.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

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

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

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area Member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

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

4. **Information about the Preferred Securities in Connection with Payments**

As at the date of this Offering Circular, the Issuer is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to the Preferred Securities. In accordance with Section 44 of Royal Decree 1065/2007, for the purpose of preparing the annual return referred to above, certain information with respect to the Preferred Securities must be submitted to the Issuer before the close of business on the Business Day immediately preceding the

date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Preferred Securities is due.

Such information would be the following:

(a) identification of the Preferred Securities (as applicable) in respect of which the relevant payment is made;

(b) date on which relevant payment is made;

(c) the total amount of the relevant payment; and

(d) the amount of the relevant payment and to each entity that manages a clearing and settlement system for securities situated outside Spain.

In particular, the Paying and Conversion Agent must certify the information above about the Preferred Securities by means of a certificate the form of which is attached as Annex I of this Offering Circular.

In light of the above, the Issuer and the Paying and Conversion Agent have arranged certain procedures to facilitate the collection of information concerning the Preferred Securities. If, despite these procedures, the relevant information is not received by the Issuer by the close of business on the Business Day immediately preceding the date on which any payment of interest, principal or any amounts in respect of the early redemption of the Preferred Securities is due, the Issuer may be required to withhold at the applicable rate (as at the date of this Offering Circular, 19 per cent.) from any payment in respect of the relevant Preferred Securities as to which the required information has not been provided. In that event the Issuer will pay such additional amounts as will result in receipt by the Holders of such amount as would have been received by them had no such withholding been required.

If, before the tenth day of the month following the month in which interest is paid, the Principal Paying Agent provides such information, the Issuer will reimburse the amounts withheld.

Notwithstanding the foregoing, the Issuer has agreed that, in the event that withholding tax was required by law, the Issuer, would pay such additional amounts as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except as provided in Condition 12.2.

Paragraph 8 of Section 44 of Royal Decree 1065/2007 establishes an obligation for the Issuer to disclose certain tax information to the Spanish Tax Authorities about those investors in the Preferred Securities who are Spanish Personal Income Tax or Corporate Income Tax taxpayers, or non-Spanish residents operating in Spain through a permanent establishment, and therefore the Issuer may need to obtain and disclose certain information to the tax authorities in order to comply with its obligations under the applicable legislation.

Finally, in the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will notify the Holders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

5. **Conversion of the Preferred Securities into Ordinary Shares**

5.1 ***Individual with tax residency in Spain***

Income earned on the conversion of the Preferred Securities to Ordinary Shares, computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange, will be considered as a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law.

Also, ancillary acquisition and disposal charges are taken into account, insofar as adequately evidenced, in calculating the income obtained.

Any income obtained in the conversion will not be subject to withholding tax.

The tax treatment will be the one referred to under "*Tax treatment of the Preferred Securities – Individuals with tax residency in Spain – Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)*".

5.2 ***Legal entities with tax residency in Spain***

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities will be computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

Such income will be subject to CIT at the general rate applicable from time to time (currently 25 per cent.) in accordance with the rules for this tax. Any income derived from the conversion will not be subject to withholding tax.

The tax treatment will be the one referred to under "*Tax treatment of the Preferred Securities – Legal entities with tax residency in Spain – Corporate Income Tax (Impuesto sobre Sociedades)*".

5.3 ***Individuals and legal entities with no tax residency in Spain***

(a) *Non-Spanish resident investors acting though a permanent establishment in Spain*

Non-Spanish resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

(b) *Non-Spanish resident investors not acting though a permanent establishment in Spain*

Income obtained by non-Spanish resident investors on the conversion of the Preferred Securities to Ordinary Shares will be computed as the difference between the Conversion Price of the newly-issued Ordinary Shares received and the book value of the Preferred Securities delivered in exchange.

The tax treatment applicable to the income obtained will be the one described above under "*Taxes treatment of the Preferred Securities – Individuals and Legal Entities with no tax residency in Spain*".

Taxation on ownership and transfer of the Ordinary Shares

1. **Individuals with tax residency in Spain**

1.1 ***Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

(a) Taxation on dividends

According to the Spanish Personal Income Tax Law, the following, among others, shall be treated as gross capital income: income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his capacity as shareholder.

Gross capital income shall be reduced by any administration and custody expenses (but not by those incurred in individualised portfolio management) and the net amount shall be included in the relevant Spanish Holder's savings taxable base and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000.

The payment of dividends or any other distribution will be generally subject to a withholding tax at the rate of 19 per cent. Such withholding tax will be deductible from the final Personal Income Tax liability, and if the amount of tax withheld is greater than the amount of the final Personal Income Tax liability, the taxpayer will be entitled to a refund of the excess withheld in accordance with the Personal Income Tax Law.

(b) Taxation on capital gains

Gains or losses recorded by a Spanish Holder, as a result of the transfer of listed shares which represent a participation in a company's equity, will qualify for the purposes of the Personal Income Tax Law as capital gains or losses and will be subject to taxation according to the general rules applicable to capital gains. The amount of capital gains or losses shall be the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the listed value of the share as of the transfer date or, if higher, the agreed transfer price (less any fees or taxes incurred).

Capital gains arising from the transfer of shares, shall be included in such Spanish Holder's savings taxable base corresponding to the period in which the transfer takes place, and any such gains will be taxed at the tax rate applicable from time to time, currently 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. Exceptionally, capital gains arising from the transfer of shares are not subject to withholding tax on account of Personal Income Tax.

Losses arising from the transfer of shares admitted to trading on certain official stock exchanges will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses will be included in the taxable base upon the transfer of the remaining shares of the taxpayer.

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

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous

region (*Comunidad Autónoma*). Therefore, they should take into account the value of the Ordinary Shares which they hold as at 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. although the final tax rates may vary depending on any applicable regional tax laws, and some reductions may apply.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Wealth Tax will apply in 2018 unless such exemption is revoked.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Ordinary Shares by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. The applicable rates range between 7.65 per cent. and 81.6 per cent., although the final tax rate may vary depending on any applicable regional tax laws. Some tax benefits could reduce the effective tax rate.

2. **Legal entities with tax residency in Spain and non-Spanish resident investors acting through a permanent establishment in Spain to which the Ordinary Shares are attributable**

2.1 ***Corporate Income Tax (Impuesto sobre Sociedades)***

(a) Taxation on dividends

According to Section 10 of the CIT Law, dividends from the Issuer or a share of the Issuer's profits received by CIT taxpayers, or by Non-Resident Income Tax taxpayers who operate, with respect to the Issuer's shares, through a permanent establishment in Spain, to which such shares are attributable, less any expenses inherent to holding the shares, shall be included in the CIT taxable base. The general CIT tax rate is currently 25 per cent.

Dividends or profit distributions in respect of the shares obtained by Spanish CIT taxpayers that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer’s share capital or an acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant distribution date or it commits to hold the participation for the time needed to complete such one-year holding period, will be exempt as a general rule.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, Spanish CIT taxpayers must have an indirect stake in those entities that complies with the requirements described in the previous paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer, and prepare consolidated financial statements.

Should that be the case and provided that the minimum one-year holding period requirement is complied with on the distribution date, dividends will not be subject to withholding tax. Otherwise, dividends will be taxed at the applicable CIT tax rate of the taxpayer and a 19 per cent. withholding will apply. This CIT withholding will be credited against the taxpayer's annual CIT due, and if the amount of tax withheld is greater than the amount of the annual CIT due, the taxpayer will be entitled to a refund of the excess withheld.

(b) Taxation of capital gains

The gain or loss arising on transfer of the shares or from any other change in net worth relating to the shares will be included in the tax base of CIT taxpayers, or of Non-Resident Income Tax taxpayers who operate through a permanent establishment in Spain to which such shares are attributable, in the manner contemplated in Section 10 of the CIT Law, being taxed generally at a rate of 25 per cent.

CIT payers that: (i) hold, directly or indirectly, at least 5 per cent. in the Issuer's share capital or an acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant transfer date, capital gains will be exempt as a general rule. Otherwise, capital gains will be taxed at the applicable tax rate of the taxpayer.

In case the Issuer obtains dividends, profit distributions or income derived from transfer of shares in entities in an amount higher than 70 per cent. of the Issuer's income, this exemption shall only be applicable provided that certain complex requirements are fulfilled. Mainly, Spanish CIT taxpayers must have an indirect stake in those entities that complies with the requirements described in the precedent paragraph. Certain exceptions to this rule apply if those entities comply with the requirements of Article 42 of the Spanish Commercial Code for being part of the same group of companies of the Issuer and prepare consolidated financial statements.

Income deriving from share transfers is not subject to withholding on account of CIT.

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)***

In the event of acquisition of shares free of charge by the CIT taxpayer, the income generated for the latter will likewise be taxed according to the CIT rules, the Inheritance and Gift Tax not being applicable.

3. **Non-Spanish resident investors not acting through a permanent establishment in Spain to which the Ordinary Shares are attributable**

3.1 *Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)*

(a) Taxation on dividends

Under Spanish law, dividends paid by a Spanish resident company to a non-Spanish Holder are subject to Spanish Non-Resident Income Tax, approved by the Non-Resident Income Tax Law, withheld at the source on the gross amount of dividends, currently at a tax rate of 19 per cent. However, certain corporate Holders resident in an EU Member State (other than a tax haven jurisdiction for Spanish tax purposes) may be entitled to an exemption from Non-Resident Income Tax dividend withholding tax to the extent that they are entitled to the benefits of the Spanish Non-Resident Income Tax provisions that implement the regime of the Council Directive (EU) 2015/121, of 27 January 2015, amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States. Such exemption may be available to the extent that the recipient of the dividends has held, directly or indirectly, at least 5 per cent. of the shares of the distributing entity (such minimum shareholding threshold could be lower in certain cases), or an acquisition

cost higher than €20 million, without interruption for at least one year prior to the distribution date, and provided that other requirements (including specific anti-abuse rules that need to be analysed on a case-by-case basis and procedural formalities, such as the supply of a government-issued tax residence certificate) are met. Holders claiming the applicability of such exemption that have not met a minimum one-year holding period as of a given dividend distribution date (but who could meet such requirement afterwards) should be aware that the Non-Resident Income Tax Law requires the Issuer to withhold the applicable Non-Resident Income Tax on such dividends, and that such Holders will need to request a direct refund of such withholding tax from the Spanish tax authorities pursuant to the Spanish refund procedure described below under "Spanish Direct Refund from Spanish tax authorities".

In addition, Holders resident in certain countries will be entitled to the benefits of a double taxation treaty, in effect between Spain and their country of tax residence. Such Holders may benefit from a reduced tax rate or an exemption under an applicable treaty with Spain, subject to the satisfaction of any conditions specified in the relevant treaty, including providing evidence of the tax residence of the non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the non-Spanish Holder or, as the case may be, the equivalent document specified in the Spanish Order which further develops the applicable treaty.

According to the Order of the Ministry of Economy and Finance of 13 April 2000, upon distribution of a dividend, the Issuer or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (e.g., applying the general withholding tax rate of 19 per cent.), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish Holder has entered into a contract of deposit or management with respect to shares in the Issuer held by such Holders. If the depositary of the non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence (e.g., a valid certificate of tax residence issued by the relevant tax authorities of the non-Spanish Holder's country of residence stating that, for the records of such authorities, the non-Spanish Holder is a resident of such country within the meaning of the relevant double taxation treaty, or as the case may be, the equivalent document regulated in the Order which further develops the applicable treaty) of the non-Spanish Holder's right to obtain the treaty-reduced rate or the exemption, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish Holder. For these purposes, the relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the non-Spanish Holder is not resident, domiciled or represented in Spain, the non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated 30 July 2004, promulgating the Non-Resident Income Tax Regulations and an Order dated 17 December 2010, as amended.

(b) Taxation of capital gains

Capital gains derived from the transfer or sale of the shares will be deemed income arising in Spain, and, therefore, are taxable in Spain at a general tax rate of 19 per cent.

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains. However, capital gains derived from the transfer of shares in the Issuer will be exempt from taxation in Spain in either of the following cases:

- Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any non-Spanish Holder who is tax resident of a country that has entered into a double taxation treaty with Spain containing an "exchange of information" clause. This exemption is not applicable to capital gains obtained by a non-Spanish Holder through a country or territory that is defined as a tax haven by Spanish regulations.

- Capital gains obtained directly by any non-Spanish Holder resident of another EU Member State or indirectly through a permanent establishment of such non-Spanish Holder in a EU Member State other than Spain, provided that:

  – the Issuer's assets do not mainly consist of, directly or indirectly, Spanish real estate;

  – during the preceding 12 months in case of individuals non-Spanish Holder has not held a direct or indirect interest of at least 25 per cent. in the Issuer's capital or net equity;

  – in the case of non-resident legal entities, the transfer fulfils all the requirements to benefit from the exemption on dividends and capital gains established for Spanish resident entities, passed by the CIT Law and described in paragraph (a) under "*Legal entities with tax residency in Spain and non-Spanish tax resident investors acting through a permanent establishment in Spain to which the shares are attributable – Corporate Income Tax (Impuesto sobre Sociedades)*"; and

  – the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

- Capital gains realised by non-Spanish Holders who benefit from a double taxation treaty that provides for taxation only in such non-Spanish Holder's country of residence.

Holders must submit a Spanish tax form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to settle the corresponding tax obligations or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish Holder is resident of such country within the meaning of the relevant double taxation treaty) or equivalent document meeting the requirements of the Order which further develops the applicable double taxation treaty, together with the Spanish tax form. The non-Spanish Holder's tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

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. although some reductions may apply.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Net Wealth Tax will apply in 2018 unless such exemption is revoked.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or European Economic Area Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

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

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

Unless otherwise provided under an applicable double taxation agreement in relation to Inheritance and Gift Tax, transfers of shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish Inheritance and Gift Tax if the shares are located in Spain (as is the case with shares in the Issuer) or the rights attached to such shares are exercisable in Spain, regardless of the residence of the heir or the beneficiary. The taxpayer is the transferee. The applicable tax rate, after applying all relevant factors, ranges between 7.65 per cent. and 81.6 per cent. for individuals, although the final tax rates may vary depending on any applicable regional tax laws.

According to the amendments passed by Law 26/2014, of 27 November, it will be possible to apply tax benefits approved in some Spanish regions to EU residents following specific rules.

Non-Spanish legal entities which acquire ownership or other rights over the Ordinary Shares by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be generally subject to Spanish NRIT as capital gains, without prejudice to the exemptions referred to above under "— *Taxation of capital gains*".

Spanish Direct Refund from Spanish tax authorities

Beneficial owners entitled to receive income payments in respect of the Preferred Securities or in respect of the Ordinary Shares free of Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable double taxation treaty, but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim any excess amount withheld by the Bank from the Spanish Treasury following the 1 February of the calendar year following the year in which the relevant payment date takes place, and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership, and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

Set out below is Annex I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Annex I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only. The language of the Offering Circular is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Offering Circular.

ANNEX I

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal ( )[(1)], en nombre y representación de (entidad declarante), con número de identificación fiscal ( )[(1)] y domicilio en ( ) en calidad de (marcar la letra que proceda):

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

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores……

1.1 Identification of the securities……

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados) ……

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora ……

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved ……

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2. En relación con el apartado 5 del artículo 44.

2. In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores ……

2.1 Identification of the securities……..

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) ……

2.2 Income payment date (or refund if the securities are issued at discount or are segregated) ……

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados ……

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en……a … de……de …

I declare the above in …… on the … of …… of …

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

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

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Preferred Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Preferred Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Preferred Securities, neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 8 May 2017, jointly and severally agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities less certain commissions as agreed with the Issuer. In addition, the Bank will also reimburse each of the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify each of the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Bank.

United States of America

The Preferred Securities and the Ordinary Shares to be issued and delivered in the event of any Trigger Conversion have not been and will not be registered under the Securities Act or securities laws or "blue sky" laws of any state of the United States or any other relevant federal jurisdiction, and, accordingly, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, the Preferred Securities are being offered and sold in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Preferred Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. 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 of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver Preferred Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Preferred Securities, as certified to the Fiscal Agent or the Issuer by such Joint Lead Manager within the United States or to, or for the account or benefit of, U.S. persons, and such Joint Lead Manager will have sent to each affiliate or other dealer to which it sells Preferred Securities during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons a confirmation of notice to substantially the following effect:

"The Securities covered hereby have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered, sold or delivered 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 Joint Lead Manager, 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 Preferred Securities, any offer or sale of Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment

activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the **FSMA**) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA would not, 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 Preferred Securities in, from or otherwise involving the United Kingdom.

The Kingdom of Spain

Each Joint Lead Manager has represented and agreed that the Preferred Securities 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 Preferred Securities may not be offered, sold or distributed, nor may any subsequent resale of Preferred Securities 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. Neither the Preferred Securities nor this Offering Circular have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore this Offering Circular is not intended for any public offer of the Preferred Securities in Spain.

General

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

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

GENERAL INFORMATION

1. Listing

Application has been made to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market ("**GEM**") of the Irish Stock Exchange ("**ISE**"). It is expected that listing of the Preferred Securities will take place and that dealings in the Preferred Securities on the GEM will commence on or about 18 May 2017. The Issuer estimates that the expenses related to the admission of Preferred Securities to trading on the GEM are expected to be €6,500.

2. Listing Agent

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Preferred Securities to the Official List of the ISE and trading on its GEM.

3. Authorisation

The creation and issue of the Preferred Securities have been authorised by virtue of the resolutions passed by (a) the general meeting of shareholders of the Bank, held on 30 March 2017 and (b) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 27 April 2017.

4. Legal and Arbitration Proceedings

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 Offering Circular, a significant effect on the financial position or profitability of the Issuer or of the Issuer and its subsidiaries taken as a whole.

5. Material/Significant Change

Since 31 December 2016 there has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries taken as a whole. Since 31 March 2017 there has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries taken as a whole.

6. Independent auditors

The consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2016 and 31 December 2015 by PricewaterhouseCoopers Auditores, S.L., ("**PwC**") of Avda. Diagonal, 640, 08017 Barcelona, Spain, independent auditors who are members of the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*).

7. Third party information

Information included in this Offering Circular sourced from a third party has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

8. Documents on Display

Copies of the following documents in electronic format (together with English translations thereof (if any)) may be inspected for as long as the Preferred Securities are listed on the Official List of the ISE

and admitted to trading on the GEM during normal business hours for at the offices of the Fiscal Agent at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom.

a) the constitutive documents (*Estatutos*) of the Issuer; and

b) the audited consolidated annual accounts of the Issuer for the years ended 31 December 2016 and 31 December 2015;

c) the unaudited consolidated quarterly financial data of the Issuer for the three-month period ended 31 March 2017;

d) the Agency Agreement; and

e) the Deed of Covenant.

9. Material Contracts

At the date of this Offering Circular, 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 Holders in respect of the Preferred Securities.

10. Interests of Natural and Legal Persons Involved in the Offer of the Preferred Securities

Save as discussed in "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the offer of the Preferred Securities has an interest material to the offer.

11. Yield

On the basis of the issue price of the Preferred Securities of 100 per cent. of their principal amount, the annual yield of the Preferred Securities for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 6.5 per cent. This yield is calculated on the Closing Date and is not an indication of future yield.

12. Legend Concerning U.S. Persons

The Preferred Securities and any coupons 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*".

13. Listing of the Ordinary Shares

The Ordinary Shares are listed on the Spanish Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, which are regulated markets for the purposes of MiFID, and are quoted on the Automated Quotation System – Continuous Market (*Sistema de Interconexión Bursátil Español – Mercado Continuo (SIBE)*, under the symbol "*SAB*". The ISIN for the Ordinary Shares is ES0113860A34. Information about the past and future performance of the Ordinary Shares and their volatility can be obtained from the respective websites of each of the relevant Spanish Stock Exchanges.

14. Listing of the Preferred Securities: ISIN and Common Code

The Preferred Securities will be admitted to listing on the GEM of the ISE and have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Preferred Securities bear the ISIN XS1611858090 and the common code 161185809.

15. Other Relationships

Certain Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Preferred Securities issued under the Offering Circular. Any such short positions could adversely affect future trading prices of Preferred Securities issued under the Offering Circular. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

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