

## BASE PROSPECTUS

# Popular

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

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

and

### **BANCO POPULAR ESPAÑOL, S.A.**

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

**€5,000,000,000**

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

guaranteed as to Notes issued by BPE Financiaciones, S.A. by

### **BANCO POPULAR ESPAÑOL, S.A.**

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

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

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

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

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

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

Banco Popular has been assigned a rating of "B+ (positive outlook)" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), "BB- (positive outlook)" by Fitch Ratings España, S.A.U. ("**Fitch**"), "Ba2 (stable outlook)" by Moody's Investors Service España, S.A. ("**Moody's**") and "BBB (high) (stable outlook)" by DBRS Ratings Limited. ("**DBRS**"). Each of S&P, Fitch, Moody's and DBRS is established in the European Economic Area ("**EEA**") and is registered under Regulation EU No 1060/2009, as amended (the "**CRA Regulation**"). Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating(s) will not necessarily be the same as the ratings described above or the rating(s) assigned to Notes already issued. If a Tranche of Notes is rated, it will be specified in the relevant Final Terms if the relevant credit rating agency is or is not established in the European Union and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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**Arranger**  
**BARCLAYS**  
**Dealers**

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.  
BARCLAYS  
BofA MERRILL LYNCH  
COMMERZBANK  
CREDIT SUISSE  
GOLDMAN SACHS INTERNATIONAL  
ING  
MORGAN STANLEY  
NATWEST MARKETS  
SANTANDER GLOBAL CORPORATE BANKING  
UBS INVESTMENT BANK

BANCO POPULAR ESPAÑOL, S.A.  
BNP PARIBAS  
CITIGROUP  
CRÉDIT AGRICOLE CIB  
DEUTSCHE BANK  
HSBC  
J.P. MORGAN  
NATIXIS  
NOMURA  
SOCIÉTÉ GÉNÉRALE CORPORATE AND INVESTMENT BANKING  
UNICREDIT BANK

The date of this Base Prospectus is 22 December 2016

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

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

*The language of this Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.*

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

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

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

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

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

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

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

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

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

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to a "Member State" are references to a Member State of the European Economic Area, references to "EUR", "Euro" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, and to "U.S.\$", "U.S. Dollars" and "dollars" are to the lawful currency of the United States of America.

The financial data incorporated by reference in this Base Prospectus, in addition to the conventional financial performance measures established by IFRS, contains certain APMs that are presented for purposes of providing investors with a better understanding of the Group's financial performance, cash flows or financial position as they are used by the Group when managing its business. Such measures should not be considered as a substitute for those required by IFRS.

The APMs are contained in sections 6 (Main Consolidated Results), 9 (Risk Management) and 11 (Shareholders) of the management reports which accompany the Banco Popular 2014 Financial Statements and the Banco Popular 2015 Financial Statements and in sections 1 (Salient Aspects), 2 (Banco Popular Group) and 3 (Businesses) of the management reports which accompany the Banco Popular June 2016 Interim Financial Statements and the Banco Popular September 2016 Interim Financial Information. Certain descriptions and reconciliations of such APMs are set out on page 26 of the management report which accompanies the Banco Popular June 2016 Interim Financial Statements and pages 27 to 29 of the management report which accompanies the Banco Popular September 2016 Interim Financial Information.

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## ISSUE OF NOTES

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

## DOCUMENTS INCORPORATED BY REFERENCE

The documents numbered (1) to (3) below have been filed with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and English translations of those documents (which are direct and accurate translations of the Spanish originals) together with the documents numbered (4) and (5) below, which have been filed previously with the Central Bank, shall be deemed to be incorporated in, and to form part of, the Base Prospectus:

- (1) the audited consolidated annual accounts of Banco Popular as at and for the years ended 31 December 2015 ("**Banco Popular 2015 Financial Statements**") and 31 December 2014 ("**Banco Popular 2014 Financial Statements**") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS-EU**") together with the management reports and auditor's reports thereon;
- (2) the audited condensed interim consolidated financial statements of Banco Popular as at and for the six month period ended 30 June 2016 prepared in accordance with IFRS-EU together with the management report and the auditor's report thereon; ("**Banco Popular June 2016 Interim Financial Statements**");
- (3) the unaudited condensed interim consolidated financial information of Banco Popular as at and for the nine month period ended 30 September 2016 prepared in accordance with IFRS-EU; which includes the 30 September 2015 financial information for comparative purposes ("**Banco Popular September 2016 Interim Financial Information**"); and
- (4) the audited unconsolidated annual accounts of BPEF for the years ended 31 December 2015 and 31 December 2014 prepared in accordance with generally accepted accounting principles in Spain ("**Spanish GAAP**") together with the management reports and the auditor's reports thereon; and
- (5) the terms and conditions of the Notes contained in the previous base prospectuses dated 22 December 2009, pages 15-36 (inclusive) (the "**2009 Conditions**"), 20 December 2012, pages 25-49 (inclusive) (the "**2012 Conditions**"), 23 December 2013, pages 31-61 (inclusive) (the "**2013 Conditions**"), 22 December 2014, pages 32-64 (inclusive) (the "**2014 Conditions**") and dated 10 December 2015, pages 37-68 (inclusive) (the "**2015 Conditions**") prepared by BPEF and Banco Popular in connection with the Programme.

In the Banco Popular June 2016 Interim Financial Statements, the 2015 financial information has been restated for comparative purposes as a result of the new models of financial statements and corresponding notes approved in Bank of Spain Circular 3/2015 and Circular 5/2014 and the National Securities Market Commission Circular 5/2015 (see Note 2.1 Basis of presentation and Note 2.4 Comparative information to the Banco Popular June 2016 Interim Financial Statements).

Appendix I to the Banco Popular June 2016 Interim Financial Statements provides quantitative information on the effect of these changes, the old and new formats are compared for the 2015 consolidated balance sheet and consolidated income statement and an explanation of the main differences is given.

In addition, as explained in Note 4 to the Banco Popular June 2016 Interim Financial Statements, during the first half of 2016 the business segments have been redefined and the segment information as at and for the six months ended 30 June 2015 has been restated for comparative purposes.

Pursuant to Spanish regulatory requirements, management reports (*informes de gestión*) are required to accompany consolidated annual accounts and consolidated interim financial statements and are incorporated by reference to this Base Prospectus. Investors are cautioned that the management reports contain information as of various historical dates and do not contain a current description of business, affairs, or results. The information contained in the management reports has been neither audited nor prepared for the specific purpose of this Base Prospectus.

Any other information contained in any of the documents described above different from the information deemed to be incorporated by reference is not incorporated by reference in this Base Prospectus and is not relevant to investors.

Documents (1) above are available on

<http://www.grupobancopopular.com/EN/InvestorRelations/FinancialInformation/Documents/2015/annualreport2015.pdf> and

<http://www.grupobancopopular.com/EN/InvestorRelations/FinancialInformation/Documents/2014/IA2014en.pdf>

Document (2) above is available on

<http://www.grupobancopopular.com/EN/InvestorRelations/FinancialInformation/Documents/2016/informesehemestral2016EN2.pdf>

Document (3) above is available on

[http://www.grupobancopopular.com/ES/AccionistasInversores/InformacionEconomicaFinanciera/Documents/Informes\\_trimestrales/2016/IT%203Q16.pdf](http://www.grupobancopopular.com/ES/AccionistasInversores/InformacionEconomicaFinanciera/Documents/Informes_trimestrales/2016/IT%203Q16.pdf)

Documents (4) above are available on

[http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/Annual%20Report%202015\\_BPE%20Financiaciones%20S%20A.pdf](http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/Annual%20Report%202015_BPE%20Financiaciones%20S%20A.pdf)

<http://www.grupobancopopular.com/EN/InvestorRelations/FixedIncomeandRatings/Documents/CCAA%20BPE%20Financiaciones%2031.12.2014%20ingl%C3%A9s%20versi%C3%B3n.pdf> and

Documents (5) above are available on the following:

- 2009 Conditions  
[http://www.ise.ie/debt\\_documents/1445\\_16238\\_BP\\_22122009\\_15872.pdf](http://www.ise.ie/debt_documents/1445_16238_BP_22122009_15872.pdf)
- 2012 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_6e9e0d49-e2df-4d37-84ab-3135e7ca9c5f.pdf](http://www.ise.ie/debt_documents/Base%20Prospectus_6e9e0d49-e2df-4d37-84ab-3135e7ca9c5f.pdf)
- 2013 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_2f11c59c-aeba-496d-ae7c-47c8693a4c8d.pdf?v=14102014](http://www.ise.ie/debt_documents/Base%20Prospectus_2f11c59c-aeba-496d-ae7c-47c8693a4c8d.pdf?v=14102014)
- 2014 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_391fc32e-71cc-4dd5-980e-44fb2529d16d.pdf?v=4102015](http://www.ise.ie/debt_documents/Base%20Prospectus_391fc32e-71cc-4dd5-980e-44fb2529d16d.pdf?v=4102015)
- 2015 Conditions  
[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_292c59c6-6817-414e-8aa0-72c9d4cb7f10.pdf?v=602016](http://www.ise.ie/debt_documents/Base%20Prospectus_292c59c6-6817-414e-8aa0-72c9d4cb7f10.pdf?v=602016)

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

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## KEY FEATURES OF THE PROGRAMME

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

### Information relating to BPE Financiaciones, S.A. as Issuer

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

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

**Directors:** The Directors of BPEF are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Santiago Armada Martínez de Campos	Head of the Funding Department of the Bank and several but not joint administrator ( <i>administrador solidario</i> ) at BPEF
Roberto Puerto González	Head of the Back-Office of the Bank and several but not joint administrator ( <i>administrador solidario</i> ) at BPEF
José Pardo García	Head of the Accountancy Department of the Bank and several but not joint administrator ( <i>administrador solidario</i> ) at BPEF

### Information relating to Banco Popular Español, S.A. as Issuer and Guarantor

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

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

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

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

As at 31 December 2015 the Board of Directors represented approximately 24.08 per cent. of the Bank's share capital, institutional investors represented approximately 47.21 per cent. of the Bank's share capital and individual shareholders represented approximately 28.71 per cent. of the Bank's share capital.

**Business:**

Consolidated profit of the Bank and its consolidated subsidiaries (the "**Group**") for the six month period ended 30 June 2016 was €94 million (compared to €188 million for the six month period ended 30 June 2015).

At 30 June 2016, the Group had total assets of €163,228 million, compared with €158,650 million at 31 December 2015. At 30 September 2016 the Group has total assets of €156,632 million.

In the second quarter 2016, the business segments have been redefined and grouped into two business areas as described below:

*Main Business*

Total banking business, excluding real estate and related scope. Fundamentally includes Retail Banking and its sub-businesses (SMEs, consumer, asset management and insurance, etc.), Private Banking, Wholesale Banking, Fixed-Income Portfolio and Market Financing (asset and liability operations with credit institutions, hedge derivatives and raising funds in wholesale markets).

*Real estate and related business*

Property and credit risk associated with the real estate sector (promotion, construction, purchase/sale or rental of property, housing) both in Spain as well as subsidiaries and real estate shareholdings.

In order to facilitate the comparison of our results of operations by segments, the Banco Popular June 2016 Interim Financial Statements include comparative financial information for the six months period ended 30 June 2015, based on our new segment reporting structure.

In this Base Prospectus, the financial information as at and for the years ended 31 December 2015 and 2014 is derived from the Banco Popular 2015 Financial Statements and the Banco Popular 2014 Financial Statements and the discussion of our results for the years ended 31 December 2015 and 2014 is presented under the previous segment reporting structure: Commercial Banking, Asset Management and Insurance, Real State area and Institutional and Market area.

**Directors and Employees:**

The members of the Board of Directors of the Bank as of the date of this Base Prospectus are as follows:

Francisco Aparicio Valls (Secretary-Director)  
Pedro Larena Landeta (CEO)  
Reyes Calderón Cuadrado (Co-ordinator Director)  
Roberto Higuera Montejo (Vice Chairman)  
Banque Fédérative du Crédit Mutuel (represented by François Martin) (Director)  
Ana María Molins López-Rodó (Director)  
Helena Revoredo Delveccio (Director)  
Ángel Carlos Ron Guimil (Chairman)  
Sindicatura de Accionistas de BPE (represented by José Francisco Mateu Isturiz ) (Director)  
Vicente Tardío Barutel (Director)  
José María Arias Mosquera (Vice Chairman-Director)  
José Ramón Estevez Puerto (Director)  
Jorge Oroviogoicochea Ortega (Director)

	Vicente Pérez Jaime (Director) Jaime Ruiz Sacristán (Director)
<b>Description of the Programme:</b>	Euro Medium Term Note Programme
<b>Arranger:</b>	Barclays Bank PLC
<b>Dealers:</b>	Banco Bilbao Vizcaya Argentaria, S.A., Banco Popular Español, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, Nomura International plc, Société Générale, The Royal Bank of Scotland plc (trading as NatWest Markets), UBS Limited, and UniCredit Bank AG. The Issuers may from time to time terminate the appointment of any Dealers under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the Programme.
<b>Fiscal Agent:</b>	The Bank of New York Mellon, London Branch
<b>Registrar:</b>	The Bank of New York Mellon (Luxembourg) S.A.
<b>Size:</b>	Up to €5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
<b>Currencies:</b>	Notes may be denominated in Euro or U.S. dollars or in any other currency or currencies of an OECD country, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
<b>Maturities:</b>	Any maturity greater than one year, subject to compliance with all relevant laws, regulations, central bank requirements and directives. Subordinated Notes will have a maturity of not less than five years or as otherwise permitted by the relevant central bank (or equivalent body) or any applicable laws or regulations.
<b>Denomination:</b>	No Notes may be issued under the Programme which (a) have a minimum denomination of less than €100,000 (or nearly equivalent in another currency) or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the relevant Issuer or by any entity to whose group the relevant Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
<b>Method of Issue:</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in one or more Series (which may be issued on the same date or which may be issued in more than one Tranche on different dates). The Notes may be issued in Tranches on a continuous basis with no minimum issue size, subject to compliance with all applicable laws, regulations and directives. Further Notes may be issued as part of an existing Series.

<p><b>Form of Notes:</b></p>	<p>Notes may be issued in registered form, without interest coupons ("<b>Registered Notes</b>"), or in bearer form, with or without interest coupons ("<b>Bearer Notes</b>").</p> <p>Bearer Notes will, unless otherwise specified, only be sold outside the United States to non-U.S. persons in reliance on Regulation S and will, unless otherwise specified in the applicable Final Terms, initially be represented by a Temporary Global Note without interest coupons attached, deposited: (a) in the case of a global note which is not intended to be issued in new global note form (a "<b>Classic Global Note</b>" or "<b>CGN</b>"), as specified in the relevant Final Terms, with or on behalf of a Common Depository located outside the United States for Euroclear and Clearstream, Luxembourg; or (b) in the case of a global note which is intended to be issued in new global note form (a "<b>New Global Note</b>" or "<b>NGN</b>"), as specified in the relevant Final Terms, with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Interests in a Temporary Global Note will be exchangeable for interests in a permanent global Note in bearer form, without coupons (a "<b>Permanent Global Note</b>"). Bearer Notes will not be exchangeable for Registered Notes. Registered Notes will not be exchangeable for Bearer Notes.</p>
<p><b>Issue Price:</b></p>	<p>Notes may be issued at their principal amount or at a discount or premium to their principal amount. The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.</p>
<p><b>Fixed Interest Rate Notes:</b></p>	<p>Fixed interest will be payable in arrear on the date or dates in each year, specified in the relevant Final Terms.</p>
<p><b>Floating Rate Notes:</b></p>	<p>Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR or LIBOR, as specified in the relevant Final Terms, as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.</p>
<p><b>Interest Periods and Interest Rates:</b></p>	<p>The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Final Terms.</p>
<p><b>Redemption by Instalments:</b></p>	<p>The Final Terms issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the date on which, and the amounts in which, such Notes may be redeemed.</p>
<p><b>Other Notes:</b></p>	<p>Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes and any other type of Note which the relevant Issuer, and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms or in a drawdown prospectus.</p>
<p><b>Optional Redemption:</b></p>	<p>The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. Subordinated Notes may not be redeemed until five years after the Issue Date (or otherwise as permitted by Applicable Banking Regulations) and such redemption is subject to the permission of the Consolidated Supervisors. In no circumstances may Subordinated Notes be redeemed prior to their maturity at the option of the</p>

<p><b>Status of the Notes</b></p>	<p>Noteholders.</p> <p>Notes may be either Senior Notes or Subordinated Notes as more fully described in "<i>Terms and Conditions of the Notes — Guarantee and Status</i>".</p> <p>Senior Notes will constitute unsubordinated and unsecured obligations of the relevant Issuer. Upon the insolvency of the relevant Issuer, Senior Notes will rank <i>pari passu</i> among themselves and equally with all other unsecured and unsubordinated obligations of the relevant Issuer, unless they qualify as subordinated claims pursuant to article 92 of Insolvency Law and subject to any applicable legal and statutory exceptions.</p> <p>Subordinated Notes issued under the Programme are intended to qualify as Tier 2 capital of Banco Popular. Subordinated Notes will constitute direct, unconditional and subordinated obligations of the relevant Issuer. Upon the insolvency of the relevant Issuer, the Subordinated Notes will (unless they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law rank (a) <b>senior</b> to (i) any contractually subordinated obligations of the relevant Issuer qualifying as Additional Tier 1 instruments; (ii) any subordinated obligations of the relevant Issuer under Articles 92.3° to 92.7° of the Insolvency Law and (iii) any other subordinated obligations of the relevant Issuer which by law and/or their terms, and to the extent permitted by Spanish law, rank junior to the relevant Issuer's obligations under the Subordinated Notes; (b) <i>pari passu</i> among themselves and with (i) any other contractually subordinated obligations of the relevant Issuer qualifying as Tier 2 instruments and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law and (ii) any other subordinated obligations which by law and/or their terms, and to the extent permitted by Spanish law, rank <i>pari passu</i> with the relevant Issuer's obligations under the Subordinated Notes; and (c) <b>junior</b> to (i) any unsubordinated obligations of the relevant Issuer; (ii) any subordinated obligations of the relevant Issuer under Article 92.1 of the Insolvency Law and (iii) any contractually subordinated obligations of the relevant Issuer not qualifying as Additional Tier 1 instruments or Tier 2 instruments and which are not subordinated obligations under Article 92.3° to 92.7° of the Insolvency Law.</p>
<p><b>Status of the guarantee</b></p>	<p>Senior Notes or Subordinated Notes issued by BPEF only are issued with the benefit of the guarantee as more fully described in "<i>Terms and Conditions of the Notes — Guarantee and Status</i>".</p> <p>The guarantee in respect of Senior Notes will constitute unsubordinated and unsecured obligations of the Guarantor. Upon the insolvency of the Guarantor, the payment obligations of the Guarantor under the guarantee in respect of Senior Notes will rank <i>pari passu</i> with all other unsecured and unsubordinated obligations of the Guarantor, unless they qualify as subordinated claims pursuant to article 92 of Insolvency Law and subject to any applicable legal and statutory exceptions.</p> <p>The guarantee in respect of Subordinated Notes will constitute direct, unconditional and subordinated obligations of the Guarantor. Upon the insolvency of the Guarantor, the payment obligations of the Guarantor under the guarantee in respect of Subordinated Notes will (unless they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law) rank (a) <b>senior</b> to (i) any contractually subordinated obligations of the Guarantor related to</p>

Additional Tier 1 instruments (including any contractually subordinated guarantee granted in relation to them); (ii) any subordinated obligations of the Guarantor under Articles 92.3° to 92.7° of the Insolvency Law and (iii) any other subordinated obligations of the Guarantor which by law and/or their terms, and to the extent permitted by Spanish law, rank junior to the Guarantor's obligations under or in respect of the Deed of Guarantee in respect of the Subordinated Notes; (b) *pari passu* with (i) any other contractually subordinated obligations of the Guarantor related to Tier 2 instruments (including any contractually subordinated guarantee granted in relation to them) and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law and (ii) any other subordinated obligations of the Guarantor which by law and/or their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Guarantor's obligations under the Deed of Guarantee in respect of the Subordinated Notes; and (c) **junior** to (i) any unsubordinated obligations of the Guarantor; (ii) any subordinated obligations of the Guarantor under Article 92.1 of the Insolvency Law and (iii) any contractually subordinated obligations of the Guarantor that are not related to Additional Tier 1 instruments or Tier 2 instruments (including any contractually subordinated guarantee granted in relation to them) and which are not subordinated obligations under Article 92.3° to 92.7° of the Insolvency Law.

**Taxation**

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

- (a) to, or to a third party on behalf of, a holder in respect of whom the Issuer (or the Fiscal Agent on its behalf) has not received the information (which may include a tax residence certificate) as it may be required in order to comply with Spanish tax reporting requirements; and
- (b) if the holder is liable for Taxes by reason of having some connection with Spain other than the mere holding of the Note or Coupon as described in Condition 9 (see "*Terms and Conditions of the Notes — Taxation*").

**Negative Pledge:**

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

**Cross Default:**

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

**Early Redemption:**

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

	<p>for tax reasons.</p>
<b>Disclosure of Information in Connection with Payments:</b>	<p>Under Spanish Law 10/2014 of 26 June on regulation, supervision and solvency of credit entities ("<b>Law 10/2014</b>"), and Royal Decree 1065/2007 of 27 July ("<b>Royal Decree 1065/ 2007</b>") as amended, the relevant Issuer and the Guarantor (if applicable) are required to provide to the Spanish tax authorities certain information relating to the Notes.</p> <p>If the Fiscal Agent fails to provide the relevant Issuer or, as the case may be, the Guarantor with the required information described under "<i>Taxation and Disclosure of Information in Connection with Payments</i>", the relevant Issuer or the Guarantor (as the case may be) may be required to withhold tax at the current rate of 19 per cent.</p> <p>A summary of those procedures is set out in "<i>Taxation and Disclosure of Information in Connection with Payments — the Kingdom of Spain</i>".</p> <p>None of the Issuers, the Guarantor, the Arranger, the Dealers, the Registrars and the Clearing Systems assume any responsibility therefore.</p>
<b>Governing Law:</b>	<p>English, save for the issue of the Notes, including their legal nature and status, the capacity of the Issuers and Guarantor, the relevant corporate resolutions and status of the payment obligations under the Deed of Guarantee, which are governed by the laws of Spain.</p>
<b>Listing:</b>	<p>This Base Prospectus has been approved by the Central Bank as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive.</p> <p>Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market, as specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may or may not be listed on the Irish Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, within the EU. Unlisted Notes will not be issued under the Programme.</p>
<b>Selling Restrictions:</b>	<p>United States, United Kingdom, Spain, France and Italy. See "<i>Plan of Distribution</i>".</p> <p>In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.</p>
<b>Risk Factors:</b>	<p>Prospective investors should understand the risks of investing in any type of Note before they make their investment decision. They should make their own independent decision to invest in any type of Note and as to whether an investment in such Note is appropriate or proper for them based upon their own judgment and upon advice from such advisers as they consider necessary.</p> <p>For a description of certain risks involved in investing in the Notes, see "<i>Risk Factors</i>".</p> <p>Risk factors are designed both to protect investors from investments from which they are not suitable and to set out the financial risks</p>

associated with an investment in a particular type of Note.

**Representation of holders of the Notes:**

In accordance with Condition 12 (*Meetings of Noteholders and Modification*), Schedule 7 (*Provisions for Meetings of Noteholders*) of the Fiscal Agency Agreement contains provisions for convening meetings of holders of Notes to consider any matter affecting their interests.

**Rating:**

Tranches of Notes may be rated or unrated and if rated, such rating(s) will be specified in the relevant Final Terms and it shall also be specified if the relevant credit rating agency is or is not established in the European Union and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

## RISK FACTORS

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

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

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

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

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

#### *Dependence on other Group members*

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

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

The principal types of risk to which the banking activities of the Group are subject include the following:

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

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

Cross-border risk: Cross-border risk, also referred to as country risk, is an additional component of credit risk. It originates from the difficulty for borrowers in certain foreign countries to satisfy their debt payment obligations. The default may be attributable to the financial position of the actual debtor (in which case the treatment is as for credit risk) or it may arise because the debtor, despite being able to repay its loans in the local currency, is unable to transfer funds abroad in view of economic difficulties in

its country of residence. Applicable rules require that these risks should be provided for based on the estimated impairment. The principles for managing cross-border risk continued to reflect a policy of maximum prudence, with cross-border risk being assumed very selectively in transactions that were clearly profitable for the Group, and strengthened global relations with its customers. At 31 December 2015, the Group's overall country risk amounted to €178.6 million, four times the figure at the end of 2014 (€43.8 million). These figures represented 0.13 per cent. of the Group's total risk in 2015 and 0.03 per cent. in 2014. Provisions made for country risk amounted to €0.8 million at 31 December 2015, 19.76 per cent. less than in 2014, so the balance of the provision established represented a coverage of country risk of 0.46 per cent. at 31 December 2015 compared with 2.32 per cent. in 2014.

Structural Balance Sheet Risk: This risk category covers risks deriving from possible adverse changes in interest rates corresponding to assets and liabilities, in the exchange rates for currencies in which asset and liability groups or on- or off-balance sheet items are denominated, and in the market prices of negotiable financial instruments. Also included in this concept is the business risk as well as the exchange rate risk.

Interest Rate Risk: Overall balance sheet interest risk can be defined as the extent to which an institution may be affected by future movements which occur in market interest rates. The principal reasons for this risk derive from the different speed and intensity with which changes in market interest rates are passed on to assets, liabilities and off-balance sheet positions based on the times when they fall due and repricing. At 31 December 2015, interest-rate sensitive assets totalled €119,855 million, compared with €112,678 million of similarly sensitive liabilities, with an aggregate positive gap of €7,177 million. At 31 December 2014, interest-rate sensitive assets totalled €122,693 million, compared with €120,152 million of similarly sensitive liabilities, with an aggregate positive gap of €2,541 million.

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

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

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

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

Operational Risk: Operational risk includes:

- (a) the business risk which may result from unforeseeable changes in external factors without sufficient time to make the structural changes necessary to adapt to them, and the risk that unforeseeable events occur which could lead to losses for the Group;
- (b) transactional risks resulting from errors in execution, registration failure, deriving from the complexity of certain products, errors in delivery and/or liquidation and/or human error;
- (c) risks in operational controls which include losses resulting from potential errors in transaction documentation, in obtaining the appropriate authorisations, fraud, lack of personnel training, failure to comply with limits or procedures laid down, failure of internal controls or unavailability of personnel;
- (d) losses resulting from material loss and damage as well as extreme events, for example natural disasters;
- (e) data processing risks, such as programming errors, systems failure and application design errors; and

- (f) legal risks, including the possibility that transactions may not be legally enforceable in the existing legal and/or regulatory framework, and also that change in law and regulations may negatively affect the situation of the Group.

Reputational Risk: It can be defined as that arising from the negative perception of the Bank by the various stakeholders with which it relates or by public opinion, which could cause an adverse impact on the capital, on the results or the development of the businesses making up its activity. It is a risk which arises from the materialisation of other risks. Legal, economic-financial, operational, ethical, social and environmental factors may influence in reputational risk and could cause a loss of confidence in the institution.

Compliance Risk: It is defined as the risk of legal or administrative sanctions, significant material financial loss or of reputation due to failures to comply with laws, regulations, self-regulation, codes of conduct and internal regulations applicable to its banking activities. Regulatory compliance is a responsibility that falls to the whole organisation of the Bank and its staff; not only to a particular area or department.

#### Risk due to treasury share transactions

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

Capital gains (losses) on these transactions for the years ended 31 December 2015 and 2014 are as follows:

	<b>Dec 2015</b>	<b>Dec 2014</b>
Capital Gains (losses) generated by the sale of treasury shares ( <i>thousands of Euro</i> )	(889)	2,599

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

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

Although the Group operates primarily in Spain, the evolution of the situation in the European Union is also very important, given its impact on liquidity and conditions of financing.

The continuing crisis in worldwide financial and credit markets has led to a global economic slowdown in recent years, with many economies around the world showing significant signs of weakness or slow growth. In Europe, there has been a significant reduction in risk premiums since late 2012, which have improved during 2013, 2014 and 2015, but have not yet returned to normal levels. Nevertheless, uncertainty regarding the budget deficits and solvency of several countries persists, together with the risk of contagion to other more stable countries. To a lesser extent than during the height of the financial crisis, there is also the risk of default on the sovereign debt of certain EU countries and the impact this would have on the Eurozone countries, including the potential risk that one or more countries may leave the Eurozone - either voluntarily or involuntarily - has raised concerns about the ongoing viability of the euro currency and the European Monetary Union ("EMU"). These concerns have been further exacerbated by the rise of Euro-skepticism in certain EU countries, including countries that decided not to enter the EMU such as the United Kingdom. This growing Euro-skepticism in certain EU countries could pose additional difficulties for the EU's ability to react to the ongoing economic crisis.

On 23 June 2016, the United Kingdom held a referendum on continuing membership in the EU. The result of the vote was 52 per cent. to 48 per cent. in favour of the United Kingdom leaving the EU. The consequences of the referendum and the timing and duration of the exit process are still uncertain.

On 4 December 2016, Italy held a referendum which rejected a proposal to amend the Italian constitution. The proposal was originally presented in 2014 by the then Prime Minister Matteo Renzi and the Democratic Party and was based on the transformation of the Senate several "Regional Senates" and the reduction of the number of senators.

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

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

The continued high cost of capital for some European governments was felt in the wholesale markets and there was a consequent increase in the cost of retail funding throughout the crisis, with greater competition in a savings market that was growing slowly by historical standards. This has been at least partly offset by the monetary policy ease implemented by the ECB, but in the absence of a permanent resolution to the Eurozone crisis, conditions may deteriorate. The Group has direct and indirect exposure to financial and economic conditions throughout the Eurozone economies.

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

Additionally, it cannot be ruled out that there may be periods of instability as a result of upcoming events that could alter the progress that has been made in establishing a European banking union and strengthening the monetary union of the Eurozone more generally.

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

During 2014, the ECB conducted, with the help of national supervisors, external advisors, consultants and other appraisers, a comprehensive assessment of the Group consisting of three elements: (i) a supervisory risk assessment, which assessed the main risks on the balance sheet including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; the implementation of the asset quality review exercise resulted in €170 million of provisions, already booked, and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. The Group passed the stress tests, both in the adverse scenario with a CET1 ratio at 7.56 per cent. and in the base scenario with a CET1 ratio at 10.93 per cent., well above the minimum required (5.5 per cent.). During 2016, the ECB and European Banking Association ("EBA") carried out this comprehensive assessment on the main 51 European banks including the Issuer. The Group passed the stress tests: its CET1 phased-in ratio stands at 13.45 per cent under the base scenario and at 7.01 per cent under the adverse scenario. The methodology used by the EBA does not take into account any measure that has taken place after December 2015, and therefore the results do not include the €2.5bn from the May 2016 share capital increase.

Given the Group's operations and interests in Portugal and, to a lesser extent, in the United States, unfavourable economic conditions in such countries could also have a material adverse effect on the Group's business, financial condition and results of operations. 5.6 per cent. and 2.1 per cent. of the

Group's gross operating income (which comprises primarily interest and similar income, fee and commission income, gains or losses on financial assets and liabilities and other operating income) for the year ended 31 December 2015 was derived from Portugal and the United States, respectively (5.4 per cent. and 1.7 per cent., respectively in 2014). In addition, any deterioration in the Portuguese economy could have a direct negative impact on the value of the Group's securities portfolio, in particular the Group's portfolio of Portuguese public debt (as of 30 September 2016 the Group held €2,128 million in Portuguese public debt).

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

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

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

While concerns relating to sovereign defaults or a partial or complete break-up of the European Monetary Union, including potential accompanying redenomination risks and uncertainties, seemed to have abated during 2014, such concerns resurfaced to some extent with the election of a new government in Greece in January 2015. A deterioration of the economic and financial environment could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. This could materially and adversely affect the operating results, financial position and prospects of the Group.

*The Group is exposed to the sovereign risk.*

The table below shows the Group's total exposure to sovereign risk at 31 December 2015, by type of financial instrument. As reflected in the table, the Group's exposure to sovereign risk mainly fall on Spain, accounting for 92.1 per cent. of total exposure (96.4 per cent. at 31 December 2014). As such, total exposure to sovereign risk amounts to €19,511 million, down by 27.29 per cent. from 2014 levels (€7,326 million).

**Sovereign risk exposure by countries at 31 December 2015**

	<b>Financial liabilities held from trading</b>	<b>Available for sale portfolio</b>	<b>Held to Maturity Investments</b>	<b>Loan and Receivables</b>	<b>Total</b>	<b>Per cent.</b>
<i>(millions of euro except percentages)</i>						
Spain		17,648	-	321	17,969	92.1
Italy.....	-	362	-	22	384	2.0
.....						
Portugal		1,158			1,158	5.9
.....	-					
.....						
<b>Total Sovereign Risk Exposure .....</b>	<b>-</b>	<b>19,168</b>	<b>-</b>	<b>343</b>	<b>19,511</b>	<b>100</b>

Despite the current figures of Gross Domestic Product ("GDP") for Spain and the positive projections laid by international monetary organisations (i.e. the International Monetary Fund and the Organisation for Economic Cooperation and Development), in the medium term, the Spanish economy may not be able to recover from the crisis at the same pace as the other major European countries. This could have a negative impact on Banco Popular's business activity, financial position and operating results. Moreover, other circumstances are generating uncertainties regarding Spain's ability to meet its sovereign debt payments in the future. Any default on the country's sovereign debt could have a material adverse effect on Banco Popular.

*Risks in relation to the global macroeconomic environment.*

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Group, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates would entail a repricing of loans, which would result in a reduction of volume, and may also have an adverse effect on the Group's interest margins. A further economic downturn, especially in Spain and other European countries, could also result in a further reduction in business activity, a consequent loss of income for the Group and further losses on the Group's assets resulting in a further reduction of its capital resources.

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

**General Business and Industry Risks**

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

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

After rapid economic growth until 2007, Spanish GDP contracted by 3.7 per cent. and 0.3 per cent. in 2009 and in 2010 respectively, grew by 0.4 per cent. in 2011, contracted by 1.6 per cent. in 2012, contracted by 1.2 per cent. in 2013, and grew by 1.4 per cent. and 3.2 per cent. in 2014 and 2015, respectively. In addition to the tightening of fiscal policies in order to correct its economic imbalances, Spain has seen confidence erode, because of weaker economic activity and, above all, deterioration in employment in 2012 and 2013, which has showed some weak signs of slow recovery during 2014 and 2015. The effects of the financial crisis have been particularly pronounced in Spain given Spain's heightened need for foreign financing as reflected by its high public deficit. Real or perceived difficulties in making the payments associated with this deficit can further damage Spain's economic situation and increase the costs of financing its public deficit.

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

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

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

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

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

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

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

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

At 31 December 2015, loans for property construction and/or development amounted to €15,892 million which is 14.8 per cent. of Banco Popular's total gross lending to customers. As a material portion of Banco Popular's loan portfolio is linked to the real estate market, it is exposed to market fluctuations in the price of real estate.

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

In addition, the decline in property prices decreases the value of the real estate securing Banco Popular's mortgage loans and adversely affects the credit quality of property developers to whom Banco Popular has lent. A further decrease in real estate prices may occur including to levels below the outstanding principal balance on these loans, which may require Banco Popular to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. Decreasing real estate

prices therefore increase the risk of loss and decrease the value of Banco Popular's real estate loan portfolio, which could have a material adverse effect on its business, results of operation and financial condition.

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

Banco Popular has lending exposure to risks in the property development and construction sector.

Credit for construction and real estate development has been reduced by €2,260 million, from €18,151 million in December 2014 to €15,892 million at the end of 2015, and likewise there has been a reduction in doubtful debts (€9,488 million in 2015 compared with €10,888 million in 2014) and substandard debts (€1,356 million in 2015 compared with €2,173 million in 2014). This exposure has a total specific coverage of €3,958 million.

At 31 December 2015, loans for property construction and/or development amounted to €15,892 million, which is 14.8 per cent. of Banco Popular's total gross lending to customers. Specific coverage (non-performing loans ("NPLs") and sub-standard) for this exposure amounted to €3,958 million at the same date.

Of the €15,892 million indicated, €14,016 million correspond to secured loans and €1,875 million to unsecured loans.

Within the secured loans, €3,418 million (21.5 per cent. of the total) qualify as "other real guarantees" (such as: collateral other than finished buildings, buildings under construction, or land).

The net carrying amount of Banco Popular's portfolio of property in Spain acquired or foreclosed at 31 December 2015 was €10,121 million and was covered by net provisions of €6,012 million.

In 2015, of the total credit for property development or construction purposes, €5,047 million related to performing loans and €1,356 million to loans classified as substandard which, despite this classification, were performing. Doubtful loans totalled €9,488 million and had coverage totalling €3,660 million, which is a coverage ratio of 38.6 per cent.

*Household and corporate indebtedness could endanger Banco Popular's asset quality and future revenues.*

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

*Banco Popular faces increasing competition in its business lines.*

The markets in which Banco Popular operates are highly competitive. Financial sector reforms have increased competition among both local and foreign financial institutions, and it believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which it must now compete, some of which have received public capital.

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

In addition, Banco Popular faces increased pressure to meet rising customer demands to provide new banking products. There is no guarantee that Banco Popular's management and employees will succeed in

adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect its ability to successfully compete in its primary markets.

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

The current economic environment in Spain has generated significant competition on the basis of interest rates among lending institutions in the demand for all types of deposits. Increasing competitive pressures could cause Banco Popular to lose customer deposits to its competitors or force Banco Popular to offer interest rates on deposits that are higher than the rates received on its loan products. As a result, Banco Popular could suffer losses which could have a material adverse effect on its business, results of operations and financial condition.

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

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

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

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

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

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

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

for credit losses. Deterioration in the economies in which the Group operates could reduce the profit margins for the Group's banking and financial services businesses.

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

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

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

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

*The Group is exposed to risk of loss from claims related to interest rate floor clauses.*

Mortgage interest rate floor clauses (*cláusulas suelo*) are clauses contained in mortgage agreements under which a borrower accepts a minimum loan interest rate level which is determined without regard to the prevailing market Euro Interbank Offered Rate (EURIBOR) or any other market rate. As such, borrowers may pay interest rates higher than prevailing market rates when repaying their loans. Such clauses are included in certain agreements the Group has entered into with its customers, including consumers aiming to purchase their first home.

In 2013 the Supreme Court of Spain ruled that interest rate floor clauses of certain Spanish banks (but not Banco Popular) were null and void because the clauses were not clearly and transparently explained to the consumer and incorporated into the relevant agreement. This ruling was issued in connection with a consumer.

The Supreme Court of Spain had reasoned that its 2013 ruling could not be retroactive.

Nevertheless, the Spanish Supreme Court, in judgments on 25 March 2015 and 29 April 2015, found that if an interest rate floor clause is declared null and void by a valid court order, for lack of transparency or any other reason, the difference between the interest paid under the clause and the interest that would otherwise have been payable without such clause, must be reimbursed by the relevant financial institution to the borrower for the period beginning on the date of publication of the Spanish Supreme Court judgment dated 9 May 2013.

On 1 April 2015, the Commercial Court of Granada No.1 petitioned the Court of Justice of the European Union for a preliminary ruling on the retroactive effects of interest rate floor clauses before 9 May 2013. In this context, on 13 July 2016, the Advocate General of the Court of Justice of the European Union issued an opinion on this matter supporting the reasoning of the decision of the Spanish Supreme Court.

On 21 December 2016, the Court of Justice of the European Union resolved against the opinion of the Advocate General of the Court of Justice and against the 2013 ruling of the Supreme Court of Spain and determined that retroactivity should be applied. On the same date, Banco Popular filed a Significant Fact notice (*Hecho Relevante*) with the CNMV relating to this information. The impact of such judgment for Banco Popular is €334 million which sum has been reported in the Banco Popular June 2016 Interim Financial Statements.

On 21 January 2016, the Group was notified of the Spanish Supreme Court ruling of 23 December 2015 on the collective claim brought by the Consumers and Users Organization ("**OCU**") on interest rate floor

clauses. The ruling declares the invalidity of such clauses in certain mortgages of the Bank for consumers for the purchase of their first home and orders the cessation of their use.

Additionally, in 2010, the Association of Customers of Banks, Savings Banks and Insurance of Spain ("ADICAE") brought a collective claim before a commercial court in Madrid against various financial entities that used interest rate floor clauses in mortgage loans granted to certain consumers, including Banco Popular and Banco Pastor. The plaintiff requested that interest rate floor clauses be declared invalid and that the defendants reimburse their clients for any amounts received as a result of the existence of such clauses. The relevant ruling was published on 7 April 2016, and it upheld the plaintiff's request subject to the following conditions: (i) the ruling only affects contracts containing interest rate floor clauses similar to those evaluated in the proceeding and (ii) the defendants would have to reimburse any amounts received from 9 May 2013 (together with any interest accrued on such amounts) as a result of the existence of such clauses. This ruling is not final and has been challenged by the Group, by other defendants and by the plaintiff.

Further, individual claims have been brought against the Group before various courts related to these clauses, some of which have been upheld. In light of these claims and those referred to above, in the fourth quarter of 2015, the Group recorded an extraordinary provision of €350 million to cover the impairment deriving from the potential withdrawal of interest rate floor clauses with retroactive effects since May 2013. Following the publication of the judgment of the OCU on 21 January 2016, the Group decided to reassess the estimate of the provision required concluding that the provision required at 30 June 2016 is €305 million.

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

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

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

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

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

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

The Group is also exposed to foreign exchange rate risk. The exchange rate risk consists of the potential losses which may occur as a result of adverse movements in exchange rates in respect of the different currencies in which the Group operates.

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

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

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

Financial institutions such as the Bank are subject to complex and detailed laws, rules and regulations designed to prevent money laundering and the financing of terrorist activities. The Group is also subject to various anticorruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programs, including those administered and enforced by the United Nations, the European Union and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. Regulatory scrutiny of compliance with these laws, rules and regulations and programs is intense.

Compliance with such laws, rules and regulations require sophisticated systems, enhanced monitoring procedures and dedicated compliance personnel, involve significant costs and pose significant technical challenges. To help ensure compliance with applicable laws, rules and regulations in this area, the Group has an external adviser review the Group's anti-money laundering and anti-terrorism measures in place annually and present a report on its findings. The Group also has an internal committee which reviews this report and oversees the implementation of any recommendations contained therein. The Group is currently implementing the latest recommendations that resulted from the 2015 review of the Group.

Although the Group's policies and procedures are designed to ensure compliance with applicable laws, rules and regulations in this area, it cannot guarantee that the Group's policies and procedures are sufficient to comply with all applicable laws, rules and regulations, prevent all instances of money laundering, terrorism financing or corruption, or achieve full compliance with applicable sanctions programs. Various members of the Group have from time to time been subject to inspections and sanctions, including monetary fines, by the Bank of Spain and other regulatory authorities for violations of applicable anti-money laundering, and other laws, rules and regulations, including those related to sanctions programs, and risk deficiencies. For example, in February 2016, the Group was notified by the Spanish Ministry of Economy and Competitiveness (*Ministerio de Economía y Competitividad*) that it was under administrative proceedings for failing to report an alleged relationship between Banco Popular and a sanctioned entity. Under the order of the Spanish Ministry of Economy and Competitiveness, the Group has been fined €1.5 million for allegedly failing to freeze or block funds of a sanctioned entity and €750,000 for allegedly failing to have and apply effective internal controls and procedures, including written procedures for taking on new clients. The Group has conducted an internal investigation regarding this matter. It has also appealed the fines imposed on the grounds that there was no relationship which would result in the need for taking such measures. This appeal is currently pending. Popular Banca Privada has also recently been fined for alleged violations of the European Markets in Financial Instruments Directive ("**MiFID**"), which the Group is also appealing. There can be no guarantees that these appeals will be successful or that the Group will not face further regulatory scrutiny in connection with these matters.

Further, on 26 April 2015, an investigation was initiated by the Central Criminal Court of Madrid in connection with an alleged violation between 2006 and 2010 by the former Banco Pastor, S.A. (prior to its merger into the Group in June 2012) of anti-money laundering regulations. The matter arose out of the "Gurtel" investigation and relates to certain fund movements made through the former Banco Pastor, S.A.

to persons outside of Spain. As of the date of this Base Prospectus the Group is conducting an internal investigation regarding this matter but has yet to determine the materiality of the alleged violation. Violations of applicable laws, rules and regulations and sanctions regimes could lead to financial penalties being imposed on the Group, limits being placed on the Group's activities, the Group's authorisations and licenses being revoked, damage to the Group's reputation and other consequences, any of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Further, litigation or investigations related to alleged instances of non-compliance with applicable laws and sanction regulations could be costly and divert management's time and attention.

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

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

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

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

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

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

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

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

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

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

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

and timely manner, the Group's business, financial condition and results of operations, including control and operational risks, may be adversely affected. Likewise, if the Group fails to attract and appropriately train, motivate and retain qualified professionals, its business may also be affected.

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

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

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

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

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

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

<b>Agency</b>	<b>Long term senior unsecured</b>	<b>Short term senior unsecured</b>	<b>Individual/Financial Strength</b>	<b>Outlook</b>
Moody's	*Ba2	NP	b1	Positive
S&P	B+	B	b	Positive
Fitch	BB-	B	bb-	Positive
DBRS	BBB (high)	R1 (low)	BBB (High)	Stable

\*Moody's rating for the Long Term Deposits Rating is Ba1

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain their current ratings or outlooks. With regard to those rating agencies that have a negative outlook on the Group, there can be no assurances that such agencies will revise such outlooks upward. The Group's failure to maintain favourable ratings and outlooks could increase the cost of its funding and adversely affect the Group's interest margins.

In addition, certain countries in Europe, including Spain, have relatively large sovereign debts or fiscal deficits, or both. Several EU countries have recently experienced significant increases in their cost of funding which, in the case of certain countries has led them to seek financial assistance from the European Commission and the International Monetary Fund. Spain has also recently experienced

increases in its cost of funding due to concerns regarding rising sovereign debt levels. Any downgrade in the credit rating of the Kingdom of Spain or increasing concerns about its ability to make payments on its sovereign debt could lead to an increase in Banco Popular's borrowing costs, limit its access to capital markets and adversely affect the sale or marketing of its products, its participation in business transactions and its ability to retain customers, which could adversely affect its liquidity and have a material adverse effect on its business, financial condition and results of operation.

*Banco Popular's insurance coverage may not adequately cover its losses.*

Due to the nature of Banco Popular's operations and the nature of the risks that it faces, there can be no assurance that the insurance coverage it maintains is adequate. If Banco Popular were to suffer a significant loss for which it is not insured, its business, financial condition and results of operations could be materially adversely affected.

**Legal, Regulatory and Compliance Risks**

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

The financial services industry is among the most highly regulated industries in the world. The Bank's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the European Union, the United States and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector which the Bank expects to continue for the foreseeable future. As a result, the Bank may further be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability.

The regulations which most significantly affect the Bank, or which could most significantly affect the Bank in the future, include regulations relating to capital and provisions requirements, which have become increasingly more strict in the past years, steps taken towards achieving a fiscal and banking union in the European Union, and regulatory reforms in the United States. These risks are discussed in further detail below.

In addition, the Bank is subject to substantial regulation relating to other matters such as liquidity. The Bank considers that future liquidity standards could require maintaining a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect the Bank's net interest margin.

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

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

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Bank's business, results of operations and financial condition. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulations, could adversely affect the Bank's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulations.

*Capital requirements*

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges. Increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk associated with the possibility of failure to maintain required capital levels.

As a Spanish financial institution, Banco Popular is subject to Directive 2013/36/EU of the European Parliament and of the Council, of June 26, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and repealing Directives 2006/48/EC and 2006/49/EC (the "**CRD IV Directive**") 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 the European Parliament and of the Council, of June 26, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the "**CRR**" and together with the CRD IV Directive and any CRD IV implementing measures, "**CRD IV**"), which is complemented by several binding regulatory or implementing technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013 of 29 November ("**RD-L 14/2013**"), Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions ("**Law 10/2014**"), Royal Decree 84/2015 of 13 February ("**RD 84/2015**"), Bank of Spain Circular 2/2014 of 31 January and Bank of Spain Circular 2/2016 of 2 February (the "**Bank of Spain Circular 2/2016**"). On 23 November 2016, the European Commission announced a further package of reforms to CRD IV, the BRRD and the SRM Regulation (each of the BRRD and SRM Regulation as defined below) (the "**EU Banking Reforms**"), including measures to increase the resilience of EU institutions and enhance financial stability. The timing for the final implementation of these reforms and their impact is unclear as at the date of this Base Prospectus.

CRD IV has, among other things, established minimum "Pillar 1" capital requirements and increased the level of capital required by means of a "combined buffer requirement" (as described below) and by the possibility of imposing further "Pillar 2" capital requirements.

Under the minimum "Pillar 1" capital requirements, the Bank is required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8% of risk-weighted assets, of which at least 4.5% of risk-weighted assets must be common equity tier 1 ("**CET1**") capital and at least 6% of risk-weighted assets must be Tier 1 capital.

The "combined buffer requirement" has introduced five new capital buffers: (i) the capital conservation buffer, (ii) the global systemically important institutions buffer (the "**G-SIB buffer**"), (iii) the institution-specific countercyclical buffer, (iv) the other systemically important institutions buffer (the "**D-SIB buffer**") and (v) the systemic risk buffer. The "combined buffer requirement" applies in addition to the minimum "Pillar 1" capital requirements (and to the Pillar 2 requirements) and is required to be satisfied with CET1 capital.

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

The capital conservation buffer will be 0.625% phased-in in 2016 and 2.5% fully loaded.

The global systemically important institutions buffer applies to those institutions included in the list of global systemically important banks ("**G-SIBs**"), which is updated annually by the Financial Stability Board (the "**FSB**"). The Bank has not been classified as G-SIB by the FSB nor by the Bank of Spain so, unless otherwise indicated by the FSB or by the Bank of Spain in the future, the Bank will not be required to maintain this G-SIB buffer.

Likewise, the D-SIB buffer applies to those institutions deemed to be of local systemic importance, domestic systemically important banks or "**D-SIBs**". Although the Bank of Spain communicated that the Bank has been considered a D-SIB during 2016, the Bank has not been required to maintain a D-SIB buffer during this period. On 7 November 2016, the Bank of Spain communicated that the Bank will be considered a D-SIB during 2017 and consequently, the Bank will be required to maintain a D-SIB buffer of 0.25 per cent CET1 capital ratio on a consolidated basis during 2017 (the phase-in of the D-SIB buffer will result in the D-SIB buffer applicable to the Bank in 2017 being a CET1 capital ratio of 0.125% on a consolidated basis).

The percentages of the institution-specific countercyclical buffer are revised each quarter. The Bank of Spain agreed in September 2016 to set the institution-specific countercyclical buffer applicable to credit exposures in Spain at 0 per cent. for the fourth quarter of 2016. Likewise, in December 2016 the Bank of Spain agreed to maintain such buffer at 0 per cent. for the first quarter of 2017. The Bank considers that it does not have international exposures that may imply any additional institution specific counter-cyclical buffer charges.

The Bank of Spain has not required the Bank to maintain a systemic risk buffer.

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

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities over Banco Popular. The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the "**SREP**") at least on an annual basis. The SREPs may result in the requirement to the Bank to hold "Pillar 2" own funds.

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

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

As a result of the SREP carried out by the ECB in 2015, the ECB has informed the Bank about the Bank's requirement to maintain a CET1 phased-in capital ratio of 10.25 per cent. (on a consolidated basis). This phased-in CET1 capital ratio of 10.25 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.) and the additional own funds requirement under "Pillar 2" and the capital conservation buffer (together 5.75 per cent.).

As a result of the most recent SREP carried out by the ECB in 2016, the ECB has informed the Bank about the Bank's requirement to maintain a CET1 phased-in capital ratio of 7.875 per cent. (on a consolidated basis). This phased-in CET1 capital ratio of 7.875 per cent. includes the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.), an additional own funds requirement under "Pillar 2" of 2 per cent., the capital conservation buffer of 1.25 per cent. and the D-SIB buffer of 0.125 per cent. The Bank has also been required to maintain a phased-in Tier I ratio of 9.375 per cent. and a phased-in total capital ratio of 11.375 per cent.

As of December 2015, the Banco Popular CET1 phased in capital ratios were 13.11% on a consolidated basis and 16.06% on an individual basis. As at that date, the Banco Popular Tier 1 ratio were 13.11% on a consolidated basis and 16.10% on an individual basis and the phased-in total capital ratios were 13.83% on a consolidated basis and 16.85% on an individual basis. While the Group's ratios currently exceed the applicable regulatory requirements described above, there can be no assurance that the total capital requirements ("Pillar 1" plus "Pillar 2" plus "combined buffer requirement" plus any other applicable request from time to time) imposed on Banco Popular and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the

result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional own funds requirements on Banco Popular and/or the Group.

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

According to Article 48 of Law 10/2014, Article 73 of RD 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, an entity not meeting its "combined buffer requirement" is required to determine its "Maximum Distributable Amount" as described therein. Until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain, the relevant entity will be subject to restrictions on (i) dividends or other distributions relating to CET1 capital, (ii) payments in respect of variable remuneration or discretionary pension revenues and (iii) distributions relating to Additional Tier 1 Instruments ("**discretionary payments**") and, thereafter, any such discretionary payments by that entity will be subject to such Maximum Distributable Amount. Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain (or, as the case may be, the ECB) of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014, aimed at strengthening own funds or limiting or prohibiting the distribution of dividends, respectively, will also restrict discretionary payments to such Maximum Distributable Amount.

As set out in the "Opinion of the EBA on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015 (the "**December 2015 EBA Opinion**"), in the EBA's opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and, if applicable, "Pillar 2" own funds requirements of the institution. In addition, the December 2015 EBA Opinion advises the European Commission (i) to review Article 141 of the CRD IV Directive with a view to avoiding differing interpretations of Article 141(6) and ensure greater consistency between the Maximum Distributable Amount framework and the capital stacking order described in the opinion and in the EBA SREP Guidelines and (ii) to review the prohibition on distributions in all circumstances where an institution fails to meet the "combined buffer requirement" and no profits are made in any given year, notably insofar as it relates to Additional Tier 1 Instruments. In line with the approach recommended in the December 2015 EBA Opinion, the ECB published a presentation on its SREP methodology on 19 February 2016 in which it outlined that only CET1 capital in excess of that used to meet an institution's "Pillar 1" and "Pillar 2" CET1 capital requirements will be taken into account for determining the Maximum Distributable Amount. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution if its capital levels fall below those necessary to meet these requirements. The EBA Banking Reforms propose certain amendments in order to clarify, for the purposes of restrictions on distributions, the hierarchy between the "Pillar 2" additional own funds requirements, the minimum "own funds" "Pillar 1" requirements, the own funds and eligible liabilities requirement, MREL (as defined below) requirements and the "combined buffer requirements" (which is referred to as the "stacking order").

On 1 July 2016, the EBA published additional information explaining how supervisors intend to use the results of an EU-wide stress test for SREP in 2016 (which results were published on 29 July 2016). The EBA stated, among other things, that the incorporation of the quantitative results of the EU-wide stress test into SREP assessments may include setting additional supervisory monitoring metrics in the form of capital guidance. Such guidance will not be included in Maximum Distributable Amount calculations but competent authorities would expect banks to meet that guidance except when explicitly agreed. Competent authorities have remedial tools if an institution refuses to follow such guidance. The EBA Banking Reforms also propose that a distinction be made between "Pillar 2" capital requirements and guidance, with only the former being mandatory requirements.

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

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

At its meeting of 12 January 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from 1 January 2015. There will be a mandatory minimum capital requirement on 1 January 2018, with an initial minimum leverage ratio of 3 per cent. that can be raised after calibration, if European authorities so decide. The proposed revisions to the design and calibration of the leverage ratio were set out in the Basel Committee April 2016 consultation paper entitled "Revisions to the Basel III leverage ratio framework". The consultation period ended on 6 July 2016 and Basel Committee has agreed to finalise the calibration of the leverage ratio in 2016 to allow sufficient time for it to be implemented by 1 January, 2018. The EU Banking Reforms propose a binding leverage ratio requirement of 3 per cent. of Tier 1 capital that is added to an institution's own funds requirements and that an institution must meet in addition to its risk based requirements.

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

*Bail-in and write down powers under the BRRD may adversely affect the Bank's business*

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 failing or likely to fail 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 Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the "**FROB**"), the Single Resolution Mechanism ("**SRM**") or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission or any other entity with the authority to exercise any such tools and powers from time to time (each, a "**Relevant Spanish Resolution Authority**") as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest.

The four resolution tools are: (i) sale of business — which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution — which enables resolution authorities to transfer all or part of the business of the institution to an entity created for this purpose that is wholly or partially in public control ("bridge institution"); (iii) asset separation — which enables resolution authorities to transfer impaired or problem assets to one or more publicly-owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in — by which the Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power (as defined below). This includes the ability of the Relevant Spanish Resolution Authority to write down

(which may result in the reduction of the relevant claim 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.

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) Regulation (EU) No. 806/2014 of the European Parliament and the Council of the EU (the "**SRM Regulation**"), as amended from time to time, and (iv) any other instruments, rules or standards made in connection to (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced (which may result in the reduction of the relevant claim to zero), 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 addition to the Spanish Bail-in Power (which can be applied in respect of the Notes), the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down or convert capital instruments into equity, at the point of non-viability of an institution or a group.

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors (see "*Bail-in and write down powers under BRRD may adversely affect the rights of the Noteholders under, and the value of, any Notes*").

*Any failure by Banco Popular and/or the Group to comply with its minimum requirement for own funds and eligible liabilities (MREL) could have a material adverse effect on the Group's business, financial condition and results of operations.*

The BRRD prescribes that banks shall hold a minimum level of own funds and eligible liabilities in relation to total liabilities (known as "**MREL**"). On 3 July 2015, the EBA published the final draft technical standard on the criteria for determining MREL, which was adopted with certain amendments by the European Commission pursuant to Commission Delegated Regulation (EU) 2016/1450 of 23 May, 2016 (the "**MREL Delegated Regulation**"). The level of own funds and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on, among other things, the criteria set forth in Article 45.6 of the BRRD, including the systemic importance of the institution. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

The MREL requirement came into force on 1 January 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs and the MREL Delegated Regulation states that the resolution authorities shall determine an appropriate transitional period but that this shall be as short as possible. As part of the EU Banking Reforms, the European Commission published on 23 November 2016, a proposal for a Directive of the European Parliament and the Council on amendments to the BRRD as regards the ranking of unsecured debt instruments on insolvency hierarchy (the "**MREL Proposal**"). The MREL Proposal proposes to harmonise national laws on recovery and resolution of credit institutions and investment firms, in particular as regards their loss-absorbency and recapitalisation capacity in resolution and proposes the creation of a new asset class of "non-preferred" senior debt that should only be bailed-in after other capital instruments but before other senior liabilities.

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, by contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of risk weighted assets as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage

ratio exposure measure as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. As of the date of this Base Prospectus, Banco Popular is not classified as a G-SIB by the FSB. However, if Banco Popular were to be so classified in the future or if 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, then this could create additional minimum capital requirements for Banco Popular.

In this regard, the EBA submitted on 14 December 2016 a final report on the implementation and design of the MREL framework (the "**EBA MREL Report**") which contains a number of recommendations to amend the current MREL framework. The EU Banking Reforms contain the legislative proposal of the European Commission for the amendment of the MREL framework and the implementation of the TLAC standards. The EU Banking Reforms propose the amendment of a number of aspects of the MREL framework to align it with the TLAC standards included in the TLAC Principles and Term Sheet. To maintain coherence between the MREL rules applicable to G-SIBs and those applicable to non G-SIBs, the EU Banking Reforms also propose a number of changes to the MREL rules applicable to non-GSIBs. While the EU Banking Reforms propose a number of changes to the MREL rules applicable to G-SIBs, in the case of non-GSIBs it is proposed that MREL requirements will be imposed on a bank-specific basis. For G-SIBs it is also proposed that a supplementary of "Pillar 2" MREL requirement may be further imposed on a bank-specific basis. The EU Banking Reforms further provide for the resolution authorities to give guidance to an institution to have own funds and eligible liabilities in excess of the requisite levels for certain purposes.

Neither BRRD nor the MREL Delegated Regulation provides details on the implications of a failure by an institution to comply with its MREL requirement. However, the EU Banking Reforms propose that this be addressed by the relevant authorities on the basis of their powers to address or remove impediments to resolution, the exercise of their supervisory powers under the CRD IV Directive, early intervention measures and administrative penalties and other administrative measures.

Furthermore, in accordance with the EBA MREL Report, the EBA recommends that resolution authorities and competent authorities should engage in active monitoring of compliance with their respective requirements and considers that: (i) the powers of resolution authorities to respond to a breach of MREL should be enhanced (which would require resolution authorities to be given the power to require the preparation and execution of an MREL restoration plan, to use their powers to address impediments to resolvability, to request that distribution restrictions be imposed on an institution by a competent authority and to request a joint restoration plan in cases where an institution breaches both MREL and minimum capital requirements); (ii) competent authorities should also respond to breaches of minimum capital requirements and MREL; (iii) resolution authorities should assume a lead role in responding to a failure to issue or roll over MREL-eligible debt leading to a breach of MREL; (iv) if there are both losses and a failure to roll over or issue MREL-eligible debt, both the relevant resolution authority and relevant competent authority should attempt to agree on a joint restoration plan (provided that both authorities believe that the institution is not failing or likely to fail); and (v) resolution and competent authorities should closely cooperate and coordinate. The EU Banking Reforms also provide for resolution and competent authorities to consult each other in the exercise of their respective powers in relation to any breaches of MREL. In addition, under the EBA Guidelines on triggers for use of early intervention measures of 8 May 2015 a significant deterioration in the amount of eligible liabilities and own funds held by an institution for the purposes of meeting its MREL requirements may put an institution in a situation where conditions for early intervention are met, which may result in the application by the competent authority of early intervention measures.

Accordingly, any failure by Banco Popular and/or the Group to comply with any applicable MREL requirement may have a material adverse effect on the Group's business, financial conditions and results of operations and could result in the imposition of restrictions or prohibitions on discretionary payments by Banco Popular, including the payment of dividends on the shares. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement", the MREL requirement and the restrictions or prohibitions on discretionary payments and the SREP. Further, the EU Banking Reforms provide that, if a bank does not have sufficient amount of eligible liabilities to comply with its MREL, the shortfall is automatically filled up with CET1 that will no longer count towards its combined buffer requirement. This may result a failure to meet the combined buffer requirement and accordingly, this could trigger a limit on discretionary payments. Additionally, if

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

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

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

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

Due to these differences and the greater impact of the requirements of the CRD IV with respect to DTAs, the Spanish regulator implemented certain amendments to the Spanish Law on Corporate Income Tax (Royal Decree Law 4/2004 of 5 March, as amended) through RD-L 14/2013, which also provided for a transitional regime for DTAs generated before 1 January 2014. These amendments enabled certain DTAs to be treated as a direct claim against the tax authorities if a Spanish bank is unable to reverse the relevant differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This allowed a Spanish bank not to deduct such DTAs from its regulatory capital.

The above regulations were maintained when Law 27/2014, of 27 November, on Corporate Income Tax ("LCIT") was enacted and replaced Royal Legislative Decree 4/2004. More recently, Law 48/2015, of 30 October, has amended Law 27/2014 and has introduced new requirements so that the DTAs can be converted into a direct claim against the tax authorities or can be exchanged for Spanish treasury bonds at any time after the 18 year period following the accounting registration of the DTAs.

However, in accordance with a recent amendment of the LCIT, in order for this conversion into current tax assets to be enforceable, Corporate Income Taxpayers (including the Bank) will need to pay a special tax charge (the "**Special Tax Charge**") of 1.5 per cent. on the positive difference (if any) between the DTAs (i.e., qualifying tax assets registered as of 31 December 2015) and the aggregate CIT liability (*cuota líquida*) for tax periods between years 2008 and 2015. For tax periods starting on or after 1 January 2016, the amount of qualifying tax assets that will be convertible into current tax asset (i.e., guaranteed by the Spanish State) will be equal to the tax liability of the year (*cuota líquida positiva*) in which such qualifying tax assets were generated and subject to the payment of the Special Tax Charge on that amount.

In April 2015, the European Commission initiated a preliminary State Aid investigation in relation to the Spanish deferred tax assets regime. Such investigation is now resolved to the extent that the new reading of the law (that requires payment of the Special Tax Charge in order for the conversion of the tax assets into a current asset to be enforceable) has been agreed by the European Commission, the Bank of Spain and the Spanish Ministries of Treasury and Economy.

There can be no assurance that the tax amendments implemented by RD-L 14/2013 and Law 48/2015 will not be challenged by the European Commission, that the final interpretation of these amendments will not change and that Spanish banks will ultimately be allowed to maintain certain DTAs as regulatory capital. In addition, there can be no assurance that a proposed regulation of the ECB will not result in the shortening of the transitional regime for DTAs referred to above and an increase in the percentage of applicable DTAs that will have to be deducted in any year. If this regulation is challenged or the proposed ECB regulation has this effect, this may negatively affect the Bank's regulatory capital and therefore its ability to pay dividends or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have a material adverse effect on the Bank's business, financial condition and results of operations.

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

Royal Decree-Law 6/2013 of 22 March, on protection for holders of certain savings and investment products and other financial measures, included a requirement for banks, including therefore Banco Popular, to make an exceptional one-off contribution to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*), in addition to the annual contribution to be made by member institutions, equal to €3.00 per each €1,000 of deposits held as of 31 December 2012. The purpose of such contribution was for the Deposit Guarantee Fund to be able to purchase at market prices the unlisted shares of certain Spanish financial institutions involved in restructuring or resolution processes under Law 9/2012.

Law 11/2015 has established a requirement for investment firms and credit institutions, including the Bank, to make contributions, at least annually, to the National Resolution Fund (*Fondo de Resolución Nacional*) in addition to the annual contribution to be made to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*) by member institutions. The total amount of contributions to be made by all Spanish banking entities must equal 1 per cent. of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund. This ordinary contribution of each entity shall be in proportion to the part that such entity represents over the total aggregated amount of the following concept: total liabilities of the entity, excluding own resources and deposits guaranteed by the Deposit Guarantee Fund. The contribution shall be adjusted to the risk profile of each entity according to future developing regulations. In addition, the FROB is entitled to require extraordinary contributions when the ordinary contributions of the banks are not sufficient to fund the measures set out in Law 11/2015. The obligation of the Bank to make contributions will be borne when the FROB requires the specific ordinary or extraordinary contribution to be satisfied by the Bank. The purpose of this contribution is to fund the FROB so that it can, inter alia, acquire entity instruments of Spanish financial institutions involved in restructuring or resolution processes under Law 11/2015. Furthermore, Law 11/2015 has also established an additional annual fee to fund the activities of the FROB as resolution authority, which charge shall equal 2.5 per cent. of the above annual ordinary contribution to be made to the National Resolution Fund.

In addition, the Bank may need to make contributions to the EU Single Resolution Fund (the "**Fund**"), once the National Resolution Fund has been integrated into the Fund, and will have to pay supervisory fees to the SSM.

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

There can be no assurance that additional funding requirements will not be imposed by the Spanish authorities for assisting in the restructuring of the Spanish banking sector.

### Steps taken towards achieving an EU fiscal and banking union

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

The 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 is expected 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 direct supervision of the 120 largest European banks (including the Bank) and indirect supervision of around 3,500 financial institutions on 4 November 2014. In preparation for this step, between November 2013 and October 2014, the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures. On 26 October 2014, the ECB announced the results of the comprehensive assessment. Banco Popular was also included in the sample of banks subject to the 2016 EU-wide stress test coordinated by the EBA. The objective of the EU-wide stress test is to provide

supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks and to challenge the capital position of EU banks. During 2016, the ECB and EBA carried out this comprehensive assessment on the main 51 European banks. The Group successfully passed the stress tests: its CET1 phased-in stands at 13.45 per cent under the base scenario and at 7.01 per cent under the adverse scenario. The methodology used by the EBA does not take into account any measure that has taken place after December 2015, and therefore the results do not include the €2.5 billion from the May 2016 share capital increase.

The SSM represents a significant change in the approach to bank supervision at a European and global level even if it is not expected to result in any radical change in bank supervisory practices in the short term. The supervisor (the ECB) is one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that form part of the SSM. Several steps have already been taken in this regard such as the publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, this 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. The SRM Regulation, which was passed on 15 July 2014, and took legal effect from 1 January 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The Single Resolution Board started operating on 1 January 2015 and fully assumed its resolution powers on 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 total liabilities (including own funds) has been applied to cover capital short falls (in line with the BRRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations. In particular, the BRRD and Directive 2014/49/EU of the European Parliament and the Council of 16 April 2014 on deposit guarantee schemes were published in the Official Journal of the EU on 12 June 2014. The BRRD was implemented into Spanish Law through Law 11/2015 and RD 1012/2015.

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

Regulations adopted on structural measures to improve the resilience of EU credit institutions may have a material impact on the Bank's business, financial condition and results of operations. These regulations, if adopted, may also cause the Group to invest significant management attention and resources to make any necessary changes.

#### Taxation of the financial sector

On 14 February 2013 the European Commission published its proposal (the "**Commission's Proposal**") for a Council Directive implementing enhanced cooperation in the area of a financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and

Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

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

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

However, the Commission Proposal remains subject to negotiation between participant Member States (it may, therefore, be altered prior to any implementation) and the scope of any such tax is uncertain. Additional EU member states may decide to participate and participating member states may decide not to participate.

On 4 July, 2014, Royal Decree-Law 8/2014, of 4 July was introduced in Spain setting forth a tax rate of 0.03 per cent. on bank deposits in Spain. Such tax 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.

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

#### United States significant regulation

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") which was adopted in 2010 will continue to result in significant structural reforms affecting the financial services industry. This legislation provided for, among other things, the establishment of a Consumer Financial Protection Bureau with broad authority to regulate the credit, savings, payment and other consumer financial products and services that the Group offers, the creation of a structure to regulate systemically important financial companies, more comprehensive regulation of the over-the-counter derivatives market, prohibitions on engagement in certain proprietary trading activities and restrictions on ownership or sponsorship of, or entering into certain credit-related transactions with related, covered funds, restrictions on the interchange fees earned through debit card transactions, and a requirement that bank regulators phase out the treatment of trust preferred capital instruments as Tier 1 capital for regulatory capital purposes.

With respect to OTC derivatives, the Dodd-Frank Act provides for an extensive framework for the regulation of OTC derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives.

The full impact of the derivative market regulations on the Group remains unclear, and could have a materially adverse effect on the Group's results of operations, financial condition or prospects. Additionally, such regulations could make it more difficult to conduct hedging and trading activities. The Group is continually assessing the impact of legal and regulatory developments, including those described above, which could have an effect on the Group and participates in relevant consultation and calibration processes to be undertaken by the various regulatory and other bodies.

The Group continues to work closely with regulatory authorities to ensure that it is able to identify and respond to proposed regulatory changes and mitigate risks to the Group and stakeholders.

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

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, and conduct by companies in which the Group holds strategic investments or

joint venture partners, which could increase the number of litigation claims and the amount of damages asserted against the Group or subject the Group to regulatory enforcement actions, fines and penalties.

### **Financial Reporting and Control Risks**

#### *Changes in accounting standards could impact reported earnings.*

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the Group's consolidated financial statements. These changes can materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period consolidated financial statements.

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

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is reviewed and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgments and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, deferred tax assets provision and pension obligation for liabilities.

If the judgment, estimates and assumptions the Group uses in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material effect on its results of operations and a corresponding effect on its funding requirements and capital ratios.

### **Technology Risks**

#### *Any failure to effectively improve or upgrade Banco Popular's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on it.*

Banco Popular's ability to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. Banco Popular must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. Banco Popular cannot assure that in the future it will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of its information technology infrastructure. Any failure to effectively improve or upgrade its information technology infrastructure and management information systems in a timely manner could have a material adverse effect on Banco Popular.

#### *Risks relating to data collection, processing and storage systems are inherent in the Group's business.*

The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately, and on its ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to its businesses and to its ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group also faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented. Although it works with its clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber-attacks, the Group routinely exchanges personal, confidential and proprietary information by electronic means, and it may be the target of attempted cyber-attacks. If it cannot maintain an effective data collection, management and processing system, it may be materially and adversely affected.

*Failure to protect personal information could adversely affect the Group.*

The Group manages and holds confidential personal information of customers in the conduct of its banking operations. Although it has procedures and controls to safeguard personal information in its possession, unauthorised disclosures could subject it to legal actions and administrative sanctions as well as damages that could materially and adversely affect its operating results, financial condition and prospects. In addition, the Group may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorised access and other security breaches, to the relevant regulatory authorities.

**Risk in Relation to the Notes**

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

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets;
- (d) has sufficient financial resources and liquidity to bear all the risks of an investment in the Notes, including where Euros (the currency for principal and interest payments) is different from the potential investor's currency; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

*The Notes of any series are subject to the provisions of the Spanish Insolvency Law.*

Law 22/2003, of 9 July 2003, on Insolvency (the "**Spanish Insolvency Law**") provides, among other things, that: (i) any claim may become subordinated if it is not included in a company's accounts or otherwise reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency, (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (iii) interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated. Any payments of interest in respect of debt securities will be subject to the subordination provisions of article 92.3 of the Spanish Insolvency Law.

The Spanish Insolvency Law, in certain instances, also has the effect of modifying or impairing creditors' rights even if the creditor, either secured or unsecured, does not consent to the amendment. Secured and unsecured dissenting creditors may be written down not only once the insolvency has been declared by

the judge as a result of the approval of a creditors' agreement, but also as a result of an out-of-court restructuring agreement without insolvency proceedings having been previously opened (e.g., refinancing agreements which satisfy certain requirements and are validated by the judge), in both scenarios (i) to the extent that certain qualified majorities are achieved and unless (ii) some exceptions in relation to the kind of claim or creditor apply (which would not be the case for the securities).

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

In no case shall subordinated creditors be entitled to vote upon a creditors' agreement during the insolvency proceedings, and accordingly, shall be always subject to the measures contained therein, if passed.

***An investor in the Subordinated Notes assumes an enhanced risk of loss in the event of the Issuers' insolvency***

The relevant Issuers' obligations under the Subordinated Notes of any series will be unsecured and subordinated and will rank junior in priority of payment to all unsubordinated obligations of the relevant Issuer. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a risk that holders of the Subordinated Notes of any series will lose all or some of their investment should the relevant Issuer and the Guarantor (if applicable) become insolvent. The payment of principal and interest in respect of the Subordinated Notes issued by BPEF only, will be unconditionally and irrevocably guaranteed by the Bank pursuant to the subordinated guarantee. The Bank's obligations under the subordinated guarantee (if applicable) will be unsecured and subordinated and will rank junior in priority of payment to all unsubordinated obligations of the Bank.

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

Law 11/2015 established a change in the ranking of claims under Article 92.2 of the Spanish Insolvency Law for Spanish banking insolvency proceedings. According to such change, principal of subordinated debt securities qualifying as Tier 2 instruments will rank (i) *pari passu* among themselves and with the principal of any other contractually subordinated obligations of the relevant debtor qualifying as Tier 2 instruments, (ii) senior to any principal of contractually subordinated obligations of the relevant debtor qualifying as Additional Tier 1 instruments and (iii) junior to any principal of contractually subordinated obligations of the relevant debtor not qualifying as Additional Tier 1 instruments or Tier 2 instruments.

***The Issuers are not prohibited from issuing further debt, which may rank pari passu with or senior to the Notes***

The Terms and Conditions of the Notes place no restriction on the amount of debt that each Issuer may issue that ranks senior to the Notes, or on the amount of securities it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by Noteholders upon liquidation of the relevant Issuer.

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

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

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

***The Notes may be redeemed prior to maturity.***

If the Final Terms specify that the Notes are redeemable at the relevant Issuer's option in certain other circumstances such Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the relevant Issuer or the Guarantor (if applicable) would, as a result of any changes in, or amendments to, the laws or regulations of Ireland or the Kingdom of Spain or any political subdivision or any authority thereof as therein having power to tax, or any changes in the application or official interpretation of such laws or regulations, be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the relevant Issuer may redeem all outstanding Notes in accordance with the Conditions. In respect of Subordinated Notes, redemption for such taxation reasons may occur at any time only if so permitted by the Applicable Banking Regulations then in force, and subject to the permission of the Consolidated Supervisors, as further described in Condition 7(b) (*Redemption for taxation reasons*).

Additionally, all and not some only, of the Subordinated Notes may be redeemed at the option of the relevant Issuer at their Early Redemption Amount (together with interest accrued to the date fixed for redemption), at any time, subject to such redemption being permitted by the applicable Spanish law then in force and the permission of the Consolidated Supervisors, if a Capital Event (as this term is defined in Condition 7(e) (*Redemption of the option of the Issuer (Capital Event)*)) occurs as a result of a change in Spanish law, Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date (including as a result of the implementation or applicability in Spain on or after the Issue Date of CRD IV), as further described in Condition 7(e) (*Redemption at the option of the Issuer (Capital Event)*).

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or the application thereof, or any of the other events referred to above, will occur and so lead to circumstances in which the relevant Issuer is able to elect to redeem the Notes, and if so whether or not the relevant Issuer will elect to exercise such option to redeem the Notes. The exercise by the relevant Issuer of the redemption feature of the Notes may have a materially adverse effect on the market value of the Notes. During any period when the relevant Issuer has the right to elect to redeem the Notes, the market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to the period in which the Issuer has the right to elect to redeem the Notes due to the market's perception that the circumstances that would enable the exercise of such option have arisen or may arise.

***Global Notes held in a clearing system.***

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

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

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

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

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

***Conflicts may arise between the interests of the Calculation Agent and the interest of the holders.***

The Issuers may appoint a Dealer as Calculation Agent in respect of an issuance of Notes under the Programme. In such a case the Calculation Agent is likely to be a member of an international financial group that is involved, in the ordinary course of its business, in a wide range of banking activities out of which conflicting interests may arise. Whilst such a Calculation Agent will, where relevant, have information barriers and procedures in place to manage conflicts of interest, it may in its other banking activities from time to time be engaged in transactions involving an index or related derivatives which may affect amounts receivable by Noteholders during the term and on the maturity of the Notes or the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Noteholders.

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

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

***Bail-in and write down powers under the BRRD may adversely affect the rights of the Noteholders under, and the value of, any Notes***

As described in "*Bail-in and write down powers under the BRRD may adversely affect the Bank's business*", the implementation of BRRD in Spain through Law 11/2015 and RD 1012/2015 has provided the Relevant Spanish Resolution Authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing institutions 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. These tools include the use of the Spanish Bail-in Power, which could result in the write-down (which may result in the reduction of the relevant claim to zero), conversion, transfer, modification, or suspension of rights, of the Notes and/or the Guarantee.

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order: (i) CET1 instruments; (ii) Additional Tier 1 Instruments; (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) eligible senior claims prescribed in Article 41 of Law 11/2015 (which is consistent with the one prescribed by the Spanish Insolvency Law read in conjunction with Additional Provision 14.2° of Law 11/2015) (the latter by the order prescribed by the Spanish Insolvency Law and taking into account the general privilege of certain non-covered deposits under Additional Provision 14 of Law 11/2015).

In addition to the Spanish Bail-in Power (which can be applied in respect of the Notes), the BRRD and Law 11/2015 provide for resolution authorities to have the further power to permanently write-down or convert capital instruments (such as Subordinated Notes qualifying as Tier 2 capital of Banco Popular) into equity, 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 Spanish Resolution Authority determines that the institution meets the conditions for resolution or the point at which the institution will cease to be viable if those capital instruments were not written down or converted. 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 Spanish 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 the Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 may impact the rights of creditors. Pursuant to Law 11/2015 Noteholders may be subject to, among other things, a write-down (which may result in the reduction of the relevant claim to zero) and/or conversion into equity or other securities or obligations on any application of the Spanish Bail-in Power and in the case of holders of Subordinated Notes qualifying as Tier 2 capital of Banco Popular may also be subject to any Non-Viability Loss Absorption. The exercise of any such powers (or any of the other resolution powers and tools) may result in Noteholders losing some or all of their investment, having the market value or trading behaviour of any Notes affected, or otherwise having their rights under such securities adversely affected, including by becoming holders of further subordinated instruments (which may be worth significantly less), or as a result of modifications to, or the disapplication of, provisions in the terms and conditions of the securities, including alteration of the principal amount or any interest payable on the securities, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise of the Spanish Bail-in Power or any other resolution tool or power may also affect the ability of the Group to satisfy its obligations under the Notes.

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

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

In addition, the EBA's preparation of certain regulatory technical standards and the implementation of technical standards to be adopted by the European Commission and of certain other guidelines is pending.

These events could be potentially relevant in determining when or how a Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power and impose Non-Viability Loss Absorption. The pending events include the approval of guidelines for the treatment of shareholders in scenarios of bail-in, write-down or conversion of capital instruments, on the rate of conversion of debt to equity or other securities or obligations in any bail-in scenario. No assurance can be given that, once adopted, these guidelines will not be detrimental to the rights of the Noteholders under, or to the value of a Noteholder's investment in, the Notes.

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

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

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

The relevant Issuer and the Guarantor (if applicable) may be subject to a procedure of early intervention or resolution pursuant to the BRRD as implemented through Law 11/2015 (and RD 1012/2015) if Banco Popular or its group of consolidated credit entities is in breach (or due, among other things, to a rapidly deteriorating financial condition, it is likely in the near future to be in breach) of applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls or the conditions for resolution referred to above are met (see "*Bail-in and write down powers under BRRD may adversely affect the Bank's business*").

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

Any enforcement by a Noteholder of its rights under the Notes upon the occurrence of an Event of Default following the adoption of any resolution procedure will, therefore, be subject to the relevant provisions of the BRRD and Law 11/2015 in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see "*Bail-in and write down powers under BRRD may adversely affect the Bank's business*"). Any claims on the occurrence of an Event of Default will consequently be limited by the application of any measures pursuant to the provisions of Law 11/2015. There can be no assurance that the taking of any such action would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the relevant Issuer and/or the Guarantor (if applicable) to satisfy its obligations under the Notes or the Guarantee (if applicable) and the enforcement by a holder of any rights it may otherwise have on the occurrence of any Event of Default may be limited in these circumstances.

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

The terms and conditions of the Subordinated Notes do not include provisions allowing for early redemption of Subordinated Notes at the option of holders.

Subordinated Notes are intended to qualify as Tier 2 capital of Banco Popular. The CRR provides that the provisions governing Subordinated Notes that qualify as Tier 2 should not give the holders the right to accelerate the future scheduled payment of interest or principal, other than in the insolvency or liquidation of the relevant Issuer. As a result, holders of Subordinated Notes will not have any rights under the terms and conditions of the Subordinated Notes to request the early redemption of such Subordinated Notes in the event of any failure by the relevant Issuer to pay principal or interest in respect of such Subordinated Notes or in the case of default by the relevant Issuer or any company within its group under any other indebtedness.

### ***General considerations.***

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuers and/or the Guarantor (if applicable) and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers, the Guarantor or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers and/or the Guarantor routinely hedge their credit exposure to the Issuers or the Guarantor consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### ***Risks relating to the Spanish withholding tax regime***

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

According to the literal wording of Article 44.5 of Royal Decree 1065/2007, income derived from securities originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another OECD country (such as Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax **provided that** the Paying Agent appointed by the Issuers submits a statement to the relevant Issuer, the form of which is included in the Agency Agreement, with the following information:

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

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

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

Each Issuer considers that, according to Royal Decree 1065/2007, any payments under the Notes will be made by such Issuer free of Spanish withholding tax, **provided that** the Simplified Information Procedures described above (which do not require identification of the Noteholders) are complied with by the relevant Issuer and the Fiscal Agent. However, the interpretation of Royal Decree 1065/2007 and in particular the absence of a withholding tax obligation for the relevant Issuer in respect of Spanish resident individuals, and to disclose certain tax information to the Spanish Tax Authorities about those Noteholders who are Spanish Individual Income Tax or Corporate Income Tax taxpayers,

or non-Spanish residents operating in Spain through a permanent establishment is currently subject to debate. The Spanish Tax Authorities may eventually issue a tax ruling to clarify the interpretation of the currently applicable procedures and it cannot be completely discarded that such ruling determines that the relevant Issuer should apply a withholding on payments to individuals with tax residence in Spain and to obtain and disclose certain information to the tax authorities. If this is the case, identification of Noteholders may be required and the procedures, if any, for the collection of relevant information will be applied by the relevant Issuer (to the extent required) so that it can comply with its obligations under the applicable legislation as clarified by the Spanish Tax Authorities.

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

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

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

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

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a 30 per cent. withholding tax with respect to "foreign passthru payments" made by non-U.S. financial institutions (such as the Bank) to investors that do not provide sufficient identification information and to non-U.S. financial institutions that do not comply with the FATCA regime. Whilst the Instruments are in global form and held within the clearing systems, in all but the most remote circumstances it is not expected that FATCA will affect the amount of any payment received by the clearing systems. 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 any 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 their 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. The Bank's obligations under the Instruments are discharged once they have paid the clearing systems, and the Bank has no responsibility for any amount thereafter transmitted to participants in the clearing systems and other subsequent custodians or intermediaries. Furthermore, if an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on the Instruments to participants in the clearing systems or any other subsequent custodians or intermediaries, the Bank would not, pursuant to the conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding of such tax. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

***The terms of the Notes contain very limited covenants***

There is no negative pledge in respect of the Notes. In addition, the Notes do not require the Bank to comply with financial ratios or otherwise limit its ability or that of its subsidiaries to incur additional debt, nor do they limit the Bank's ability to use cash to make investments or acquisitions, or the ability of the Bank or its subsidiaries to pay dividends, repurchase shares or otherwise distribute cash to shareholders. Such actions could potentially affect the Bank's ability to service its debt obligations, including those of the Notes.

## TERMS AND CONDITIONS OF THE NOTES

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

The Notes of each Tranche will, if so required by Spanish law, be issued by virtue of a public deed of issuance (the "**Public Deed of Issuance**") to be executed before a Spanish notary public on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Notes. The Notes are issued pursuant to an amended and restated fiscal agency agreement dated 22 December 2016 (the "**Fiscal Agency Agreement**") between BPE Financiaciones, S.A. as issuer ("**BPEF**"), Banco Popular Español, S.A. in its capacity as issuer ("**Banco Popular**" together with BPEF the "**Issuers**" and each an "**Issuer**"), and in its capacity as guarantor in respect of Notes issued by BPEF only (the "**Guarantor**"), The Bank of New York Mellon, London Branch as fiscal agent (the "**Fiscal Agent**"), paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the "**Paying Agents**"), transfer agent (together with any additional or other transfer agents in respect of the Notes from time to time appointed, the "**Transfer Agents**") and The Bank of New York Mellon (Luxembourg) S.A. as registrar and transfer agent (the "**Registrar**"). The Noteholders are entitled to the benefit of the deed of covenant dated 22 December 2016 and executed by each of the Issuers (the "**Deed of Covenant**"). The Guarantor has, for the benefit of the holders of the Notes issued by BPEF from time to time, executed and delivered a deed of guarantee dated 22 December 2016 (the "**Deed of Guarantee**") under which it has guaranteed the due and punctual payment of all sums from time to time payable by BPEF under the relevant Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The holders of the Notes (the "**Noteholders**"), the holders of the interest coupons (the "**Coupons**") appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the instalment receipts (the "**Receipts**") appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Fiscal Agency Agreement applicable to them.

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

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

### 1. Definitions

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

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

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different

meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

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

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

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

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

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

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

actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Regular Period**" means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but

excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

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

**"Relevant Business Day"** means:

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

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

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

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

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

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

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

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

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

**"Specified Duration"** means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal

to the relative Interest Accrual Period, ignoring any adjustment pursuant to a Business Day Convention;

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

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

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

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

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

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

*All Registered Notes shall have the same Denomination.*

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

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

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

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

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

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

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

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented

by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

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

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

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

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

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

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

(e) ***Closed periods***

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

4. **Guarantee and Status**

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

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

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

credits against the insolvency state (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits and the rights of shareholders. Pursuant to Article 59 of the Insolvency Law, accrual of interest shall be suspended from the date of declaration of insolvency of the relevant Issuer. Accrued and unpaid interests due in respect of the Senior Notes at the commencement of an insolvency proceeding (*concurso*) of the relevant Issuer will qualify as subordinated credits.

(b) **Senior Guarantee**

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

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

(c) **Status of Subordinated Notes**

If this Condition 4(c) is specified in the Final Terms as being applicable, the Notes shall be "**Subordinated Notes**". The payment obligations of the relevant Issuer under the Subordinated Notes whether on account of principal, interest or otherwise, constitute direct, unconditional and subordinated obligations of the relevant Issuer. Upon the insolvency of the relevant Issuer, the Subordinated Notes will (unless they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law) rank:

- (i) **senior** to (i) any contractually subordinated obligations of the relevant Issuer qualifying as Additional Tier 1 instruments; (ii) any subordinated obligations of the relevant Issuer under Articles 92.3° to 92.7° of the Insolvency Law and (iii) any other subordinated obligations which by law and/or their terms, and to the extent permitted by Spanish law, rank junior to the relevant Issuer's obligations under the Subordinated Notes;
- (ii) **pari passu** among themselves and with (i) any other contractually subordinated obligations of the relevant Issuer qualifying as Tier 2 instruments and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law and (ii) any other subordinated obligations which by law and/or their terms, and to the extent permitted by Spanish law, rank *pari passu* with the relevant Issuer's obligations under the Subordinated Notes; and
- (iii) **junior** to (i) any unsubordinated obligations of the relevant Issuer; (ii) any subordinated obligations of the relevant Issuer under Article 92.1 of the Insolvency Law and (iii) any contractually subordinated obligations of the relevant Issuer not qualifying as Additional Tier 1 instruments or Tier 2 instruments and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law.

(d) **Subordinated Guarantee**

This Condition 4(d) is applicable to Subordinated Notes issued by BPEF only. The obligations of the Guarantor in respect of Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor which, upon the insolvency of the Guarantor (and unless

they qualify as subordinated claims pursuant to Articles 92.3° to 92.7° of the Insolvency Law) rank:

- (i) **senior** to (i) any contractually subordinated obligations of the Guarantor related to Additional Tier 1 instruments (including any contractually subordinated guarantee granted in relation to them); (ii) any subordinated obligations of the Guarantor under Articles 92.3° to 92.7° of the Insolvency Law and (iii) any other subordinated obligations of the Guarantor which by law and/or their terms, and to the extent permitted by Spanish law, rank junior to the Guarantor's obligations under the Deed of Guarantee in respect of the Subordinated Notes;
- (ii) **pari passu** with (i) any other contractually subordinated obligations of the Guarantor related to Tier 2 instruments (including any contractually subordinated guarantee granted in relation to them) and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law and (ii) any other subordinated obligations of the Guarantor which by law and/or their terms, and to the extent permitted by Spanish law, rank *pari passu* with the Guarantor's obligations under the Deed of Guarantee in respect of the Subordinated Notes; and
- (iii) **junior** to (i) any unsubordinated obligations of the Guarantor; (ii) any subordinated obligations of the Guarantor under Article 92.1 of the Insolvency Law and (iii) any contractually subordinated obligations of the Guarantor that are not related to Additional Tier 1 instruments or Tier 2 instruments (including any contractually subordinated guarantee granted in relation to them) and which are not subordinated obligations under Articles 92.3° to 92.7° of the Insolvency Law.

(e) ***Noteholder Acknowledgement of Ranking***

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

5. **Negative Pledge**

- (a) So long as any of the Senior Notes, Receipts or Coupons remain outstanding (as defined in the Fiscal Agency Agreement):
  - (i) neither the relevant Issuer of Senior Notes nor the Guarantor (if applicable) will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or guarantee of the Relevant Indebtedness of the relevant Issuer or the Guarantor (if applicable);
  - (ii) if applicable the Guarantor will procure that no Relevant Subsidiary of the Guarantor creates or permits to subsist any Security upon the whole or part of the undertaking, assets or revenues present or future, to secure any Relevant Indebtedness or guarantee of the Guarantor, such Relevant Subsidiary or any other Person,

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

- (b) Nothing in this Condition shall prevent either of the Issuers or the Guarantor (if applicable) or any Relevant Subsidiary from creating or having outstanding any Security upon the whole of, any part of its undertaking, assets or revenues present or future which:
  - (i) arises by operation of law and in the ordinary course of business;

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

**"Group"** means Banco Popular and its consolidated subsidiaries;

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

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

## 6. Interest Provisions

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

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

relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.

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

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

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

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

In these Conditions:

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

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

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

Relevant Screen Page, the Mid-Swap Rate for the Reset Date will be the Reset Reference Bank Rate for the Reset Period;

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

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

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

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

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

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

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

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the Reset Period Mid-Swap Rate quotations provided by the Reference Banks at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date. The Fiscal Agent will request the principal office of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the rate for the Reset Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Mid-Swap Rate will be the Mid-Swap Rate for the immediately preceding Reset Period or, if none, the Initial Mid-Swap Rate; and

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

- (iii) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount:* The Fiscal Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the relevant Issuer, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Fixed Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day (where a "**London Business Day**")

means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London) thereafter.

- (iv) *Certificates to be final:* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b) by the Fiscal Agent shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Fiscal Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence wilful default or bad faith) no liability to the relevant Issuer, the Noteholders or the Couponholders shall attach the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

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

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

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

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

- (iv) *Minimum Rate of Interest:* Unless otherwise specified in the relevant Final Terms, including where the Minimum Rate of Interest is specified as being "Not Applicable" in the relevant Final Terms, the Minimum Rate of Interest shall be deemed to be zero.
- (v) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (B) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
  - (C) the relevant Reset Date (as defined in the ISDA Definitions) is either (X) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (Y) in any other case, as specified in the relevant Final Terms; and
  - (D) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall

be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

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

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

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

7. **Redemption, Purchase and Options**

(a) ***Final Redemption***

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

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

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

The Notes may be (subject in the case of Subordinated Notes which shall only be redeemed at any time if so permitted by the Applicable Banking Regulations then in force, and subject to the permission of the Consolidated Supervisors) redeemed at the option of the relevant Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of Notes (which notice shall be irrevocable), at their Early Redemption Amount, (together with interest accrued to the date fixed for redemption), if (i) the relevant Issuer (or, if the Senior Guarantee or the Subordinated Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Ireland or the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligations cannot be avoided by the relevant Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or either guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the relevant Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the relevant Issuer (or the Guarantor, as the case may be) stating that the relevant Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the relevant Issuer (or the Guarantor, as the case may be) so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the relevant Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and, in the case of Subordinated Notes, a copy of the Consolidated Supervisors' permission for redemption.

In the case of Subordinated Notes, redemption for taxation reasons is subject to the permission of the Consolidated Supervisors and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

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

(c) ***Purchases***

Each of the Issuers, the Guarantor and any of Banco Popular's Subsidiaries may at any time purchase Senior Notes and/or Subordinated Notes (**provided that** all unexpired Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchases of Subordinated Notes will be made in

compliance with the Applicable Banking Regulations in force at the time of such a purchase and subject to the permission of the Consolidated Supervisors, if required.

In the case of Subordinated Notes, the purchase of the Notes by the relevant Issuer or any of its subsidiaries shall take place in accordance with Applicable Banking Regulations in force at the relevant time.

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

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

- (i) If Issuer Call is specified in the applicable Final Terms, subject to paragraph (v) below, the relevant Issuer may on giving irrevocable notice to the holders of Notes of not less than 30 days nor more than 60 days, redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Optional Redemption Amount (Call) together with interest accrued to the date fixed for redemption.
- (ii) All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.
- (iii) In the case of a partial redemption or a partial exercise of an Issuer's option the notice to holders of Notes shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.
- (iv) Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.
- (v) In the case of Subordinated Notes redemption at the option of the relevant Issuer is subject to the permission of the Consolidated Supervisors and compliance with the Applicable Banking Regulations then in force. Redemption of Subordinated Notes may not take place within a period of five years from their date of issue or such other minimum or maximum length as may be permitted or required from time to time by any laws or regulations applicable to the relevant Issuer or requirements of any applicable regulatory authority.

In the case of Subordinated Notes, redemption at the option of the relevant Issuer is subject to the permission of the Consolidated Supervisors and may only take place in accordance with Applicable Banking Regulations in force at the relevant time.

The current Applicable Banking Regulations (Article 78(1) of CRR) provides that the Consolidated Supervisors shall grant permission to redemption of Subordinated Notes in such circumstances **provided that** either of the following conditions is met:

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

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

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

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

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

In these Conditions,

**"Applicable Banking Regulations"** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to each of the Issuers and the Guarantor including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies of the Consolidated Supervisors relating to capital adequacy then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to each of the Issuers, the Guarantor or the Group);

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

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

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

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

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

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

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

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

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

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

(h) ***Cancellation***

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

8. **Payments and Talons**

(a) ***Bearer Notes***

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

currency; and in the case of Euro, by cheque drawn on, or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) ***Registered Notes***

- (i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned or, if the currency is Euro, in such financial centre or centres in the Euro-zone as designated by the Registrar and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency designated by the holder with a bank in the principal financial centre of the country of that currency or, if the currency is Euro, in such financial centre in the Euro-zone notified to the Registrar by such holder.

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

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

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

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

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

The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent initially appointed by each of the Issuers and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent act solely as agents of the relevant Issuer and the Guarantor (if applicable) and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuers and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents **provided that** the Issuers will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities and (vi) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, such other agents as are required by such listing authority, stock exchange and/or quotation system.

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

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

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

- (i) Unless the Notes **provide that** the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).
- (ii) If the relevant Notes so provide, upon the due date for redemption of any Bearer Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note
- (iv) (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (v) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (vi) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provisions of such indemnity as the relevant Issuer may require.
- (vii) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***

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

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

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

9. **Taxation**

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

- (i) to, or to a third party on behalf of, a holder which is liable for Taxes in respect of such Note or Coupon by reason of having some connection with Spain other than the mere holding of such Note or Coupon; or
- (ii) to, or to a third party on behalf of, a holder in respect of whom the relevant Issuer, the Guarantor (if applicable) (or the Fiscal Agent on its behalf) has not received the information (which may include a tax residence certificate) as it may be required in order to comply with Spanish tax reporting requirements; or
- (iii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on the thirtieth such day; or
- (iv) 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
- (v) to, or to a third party on behalf of, a Spanish-resident corporate entity if the Spanish tax authorities determine that the Notes do not comply with exemption requirements including those specified in the Reply to Consultation of the General Directorate for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

Notwithstanding anything to the contrary in this Condition, neither of the Issuers, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement between the relevant Issuer, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

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

*a fuller description of certain tax considerations (particularly in relation to Noteholders which are resident in Spain) relating to the Notes.*

10. **Prescription**

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

11. **Events of Default**

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

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

If any of the following events (each an "**Event of Default**") occurs and is continuing, then any Note may, by written notice addressed by the Holder thereof to the relevant Issuer and the Guarantor (if applicable) and delivered to the relevant Issuer and the Guarantor (if applicable) or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon the Redemption Amount of such Notes together with accrued interest to the date of payment shall become immediately due and payable without further action or formality:

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

the relevant Issuer or the Guarantor (if applicable) or any of Banco Popular's Subsidiaries or the whole or any part of the undertaking, assets and revenues of the relevant Issuer or the Guarantor (if applicable) or any of Banco Popular's Subsidiaries is appointed (or application for any such appointment is made); or

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

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

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

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

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

12. **Meeting of Noteholders and Modification**

(a) ***Meeting of Noteholders***

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

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

(b) ***Modification***

The Notes, these Conditions, the Deed of Guarantee and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the relevant Issuer and the Guarantor (if applicable) shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the relevant Issuer and/or the Guarantor (if applicable), not materially prejudicial to the interests of the Noteholders.

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

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and listing authority, stock exchange and/or quotation system requirements, at the specified office of the Fiscal Agent (in the case of the Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the relevant Issuer for the purpose and notice of whose designation is given to holders in accordance with Condition 15, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity

(which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the relevant Issuer on demand the amount payable by the relevant Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the relevant Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. **Further Issues**

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

15. **Notices**

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

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

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

16. **Substitution of BPEF**

(a) This Condition 16 is applicable to Notes issued by BPEF only. BPEF and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders (but, in the case of Subordinated Notes, subject to the permission of the Consolidated Supervisors), substitute for BPEF any company (the "**Substitute**") upon notice to the holders by BPEF, the Guarantor and the Substitute to be given in accordance with Condition 15, provided that:

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

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

**17. Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the relevant Issuer or the Guarantor (if applicable) or otherwise) by any holder of Notes or Couponholder in respect of any sum expressed to be due to it from the relevant Issuer or the Guarantor (if applicable) shall only constitute a discharge to the relevant Issuer or the Guarantor (if applicable), as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the relevant Issuer, failing whom the Guarantor (if

applicable), shall indemnify it against any loss sustained by it as a result. In any event, the relevant Issuer, failing whom the Guarantor (if applicable), shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the holder of Notes or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the relevant Issuer's and the Guarantor's (if applicable) other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder of Notes or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt of any other judgment or order.

18. **Redenomination, Renominalisation and Reconventioning**

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

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

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

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

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

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

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

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

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

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

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

### (e) **Process agent**

Each of the Issuers and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Banco Popular Español, S.A., 10 Storey's Gate, London SW1P 3AY, United Kingdom, or, if different, its registered office for the time being or at any address of the relevant Issuer or Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the relevant Issuer or the Guarantor (if applicable), as the case may be, the Issuer and the Guarantor (acting together) shall, on the

written demand of any holder of Notes addressed and delivered to the relevant Issuer and the Guarantor (if applicable) or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any holder of Notes shall be entitled to appoint such a person by written notice addressed to the relevant Issuer and the Guarantor (if applicable) and delivered to the relevant Issuer and the Guarantor (if applicable) or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any holder of Notes to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

20. **Recognition of The Spanish Bail-In Power**

Notwithstanding any other term of the Notes or any other agreements, arrangements, or understandings between the Issuers, the Guarantor (if applicable) and any Noteholder, by its acquisition of the Notes, each Noteholder (which, for the purposes of this Condition 20, includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents to and agrees to be bound by:

- (a) the exercise and effect of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, which may be imposed with or without any prior notice with respect to the Notes, and which may include and result in any of the following, or some combination thereof:
  - (i) the reduction or cancellation of all, or a portion, of the Amounts Due;
  - (ii) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuers, the Guarantor (if applicable) the Group or another person (and the issue to or conferral on the Noteholder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes;
  - (iii) the cancellation of the Notes; and
  - (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Notes, as deemed necessary by the Relevant Spanish Resolution Authority, to give effect to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority.

This Condition 20 will only apply to the extent that the Notes are considered to be governed by the law of a third country outside the European Union for the purposes of Article 55 of the BRRD as implemented in Spain.

*The exercise of the Spanish Bail-Power by the Relevant Spanish Resolution Authority pursuant to any relevant laws, regulations, rules or requirements in effect in Spain is not dependent on the application of this Condition 20.*

In this Condition 20,

**"Amounts Due"** means the principal amount of or outstanding amount, together with any accrued but unpaid interest, due on the Notes. References to such amount will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority;

**"regulated entity"** means any entity eligible for resolution under the laws of Spain;

**"Relevant Spanish Resolution Authority"** means the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*), the Single Resolution Mechanism, the Bank of Spain, the Spanish Securities Market Commission or any other entity with the authority to exercise any the resolution tools and powers contained in Law 11/2015 from time to time; and

**"Spanish Bail-in Power"** means 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, including, but not limited to (i) Law 11/2015 (ii) RD 1012/2015, as amended from time to time, (iii) Regulation (EU) No. 806/2014 of the European Parliament and the Council of 15th July, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or replaced from time to time, and (iv) any other instruments, rules or standards made or implemented in connection with either (i), (ii) or (iii), pursuant to which any obligation of a regulated entity (or other affiliate of such regulated entity) can be reduced, cancelled, modified, transferred or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period).

21. **Rights of Third Parties**

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

## PRO FORMA FINAL TERMS

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

Final Terms dated [     ]

**[BPE Financiaciones, S.A.]/[Banco Popular Español, S.A.]**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**[Guaranteed by**

**BANCO POPULAR ESPAÑOL, S.A.]**

**under the**

**€5,000,000,000 Euro Medium Term Note Programme**

### **PART A— CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 22 December 2016 [and the supplement[s] dated [*insert date*] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, including the 2010 PD Amending Directive (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] on www.ise.ie and copies may be obtained from [address].]<sup>1</sup>

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

Terms used herein shall be deemed to be defined as such for the purposes of the [*date*] Conditions (the "**Conditions**") which are incorporated by reference in the Base Prospectus dated 22 December 2016. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus dated 22 December 2016 [and the supplement[s] to it dated [*insert date*] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, including the 2010 PD Amending Directive (the "**Prospectus Directive**"), save in respect of the Conditions which are set forth in the base prospectus dated [*insert date*] and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 22 December 2016 [and the supplement[s] dated [*insert date*]. [The Base Prospectus [and the supplement[s]] [is/are] available for viewing at [address] [and] on www.ise.ie and copies may be obtained from [address].]<sup>2</sup>

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

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

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

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

1. (i) Issuer: [BPE Financiaciones, S.A.]/[Banco Popular Español, S.A.]  
 [(ii) Guarantor: Banco Popular Español, S.A.]
2. [(i)] Series Number: [ ]  
 [[(ii)] Tranche Number: [ ]  
 [[(iii)] Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with Tranche [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about [ ]]
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount of Notes:  
 [(i)] Series: [ ]  
 [[(ii)] Tranche: [ ]
5. **Issue Price:** [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
6. (i) Specified Denominations: [ ]  
*No Notes may be issued which have a minimum denomination of less than €100,000 (or equivalent in another currency)*  
 (ii) Calculation Amount: [ ]
7. [(i)] Issue Date: [ ]  
 [(ii)] Interest Commencement Date: [Issue Date]]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis: [[ ] per cent. Fixed Rate]]  
 [Fixed Reset Notes]  
 [ ] month [[LIBOR]/[EURIBOR]]+/- [ ] pbs Floating Rate]  
 (Further particulars specified in paragraphs 15/16/17] below)
10. Redemption/Payment basis: [Redemption at par]  
 [Instalment]

11. Change of Interest or Redemption/Payment Basis: [Applicable/Not Applicable] [*specify the date when any change to the Interest Basis or Redemption/Payment Basis occurs to refer to paragraphs 15, 16 and 17 below*]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)] [Not Applicable]
13. [(i)] Status of the Notes: [Senior/Subordinated]. Condition [4(a)/4(b)] applies.  
[(ii)] Status of the Guarantee: [Senior/Subordinated].  
[(iii)] [Date Board] approval for issuance of Notes [and Guarantee] obtained: [ ] and [ ] respectively]]  
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of the Notes or related Guarantee)]
14. Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(if not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Day Jurisdictions for Condition 8(h)*]]/[not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [ ] [per Note of [ ] Specified Denomination and per Note of [ ] Specified Denomination]
- (iv) Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual (ISDA)/Actual/365(Fixed)][Actual/360]/[30/360]/[30E/360][30E/360(ISDA)]
- (v) Broken Amount(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)*]
16. **Fixed Reset Provisions** [Applicable/Not Applicable]  
*(if not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Initial Interest Rate: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear on each Interest Payment Date]
- (ii) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]

- (iii) Fixed Coupon Amount to (but excluding) the First Reset Date: [[ ] per Calculation Amount/Not Applicable]
- (iv) Broken Amount(s): [[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual (ISDA)/Actual/365(Fixed)][Actual/360]/[30/360]/[30E/360][30E/360(ISDA)]
- (vi) Determination Date(s): [[ ] in each year][Not Applicable]
- (vii) First Reset Date: [ ]
- (viii) Second Reset Date: [ ]/[Not Applicable]
- (ix) Subsequent Reset Date(s): [ ] [and [ ]]/[Not Applicable]
- (x) Reset Margin: [+/-][ ] per cent. per annum
- (xi) Mid-Swap Rate: [ ]
- (xii) Fixed Reset Rate Relevant Screen Page: [ ]
- (xiii) Floating Leg Reference Rate: [ ]
- (xiv) Floating Leg Screen Page: [ ]
- (xv) Initial Mid-Swap Rate: [ ] per cent. per annum (quoted on a[n] annual/semi-annual basis)

17. **Floating Rate Note Provisions** [Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Period(s): [ ]
- (ii) Specified Interest Payment Dates: [ ]
- (iii) Business Day Convention: [*Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/No adjustment*]
- (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Calculation Agent: [ ]
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [ ]
- (vii) Screen Rate Determination:
  - Reference Rate: [ ] month [*LIBOR*]/[*EURIBOR*]
  - Reference Banks: [ ]

- Relevant Time: [For example, 11.00 a.m. London time/Brussels time]
  - Relevant Screen Page: [For example, Reuters LIBOR 01/EURIBOR 01]
  - Interest Determination Date(s): [ ]
  - Relevant Financial Centre: [ ]
- (viii) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (ix) Linear Interpolation: [Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation] (specify for each short or long interest period) /[Not Applicable]
- (x) Margin(s): [+/-] [ ] per cent., per annum
- (xi) Minimum Rate of Interest: [ ] per cent. per annum
- (xii) Maximum Rate of Interest: [ ] per cent. per annum
- (xiii) Day Count Fraction: [ ]

#### PROVISIONS RELATING TO REDEMPTION

18. **Call Option** [Applicable/Not Applicable]
- (if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note: [ ] per Note of [ ] Specified Denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ] per Note of [ ] Specified Denomination
- (b) Maximum Redemption Amount: [ ] per Note of [ ] Specified Denomination
- (iv) Notice period [ ]
19. **Put Option** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s): [ ] per Note of [ ] Specified Denomination
- (iii) Notice period:

20. **Final Redemption Amount:** [ ] per Note of Specified Denomination
21. **Early Redemption Amount**
- Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default: [Not Applicable (if both the Early Redemption Amount and the Early Termination Amount are the principal amount of the Notes)/[ ] per Note of [ ] Specified Denomination (specify the Early Redemption Amount and/or the Early Termination Amount if different from the principal amount of the Notes)]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

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

**DISTRIBUTION**

29. (i) If syndicated, names [and addresses] of Managers [and underwriting commitments]: [Not Applicable/[ ]]  
[(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers)]
- (ii) Stabilising Manager (if any): [Not Applicable/[ ]]
- [(iii) Date of[Subscription] Agreement:] [ ]

30. If non-syndicated, name and address of [Not Applicable/[ ]]  
Dealer:
31. [Total commission and concession:] [[ ] per cent. of the Aggregate Nominal Amount]
32. U.S. Selling Restrictions: [Reg. S Compliance Category[1/2]; TEFRA  
C/TEFRA D/TEFRA not applicable]

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

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

**THIRD PARTY INFORMATION**

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

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By:

By:

Duly authorised

Duly authorised

## PART B— OTHER INFORMATION

### 1. LISTING

- (i) Listing: Application [has been made]/[is expected to be made] for the Notes to be admitted to listing on [[the Official List of the Irish Stock Exchange][●]] with effect from [●].
- (ii) Admission to trading: Application [has been made]/[is expected to be made] for the Notes to be admitted to trading on [[the regulated market of the Irish Stock Exchange][●]] with effect from [●].

*[(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)]*

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S&P: [        ]]

[Moody's: [        ]]

[Fitch: [        ]]

[DBRS: [        ]]

[[Other]: [        ]]

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

***[Option 2: Credit Rating Agency ("CRA") is not established in the EU nor registered under the CRA Regulation: [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not registered under Regulation (EC) No 1060/200, as amended (the "CRA Regulation").]***

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

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

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

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

### 3. [NOTIFICATION

The [include name of competent authority in EEA home Member State] [has been requested to provide/has provided—include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the

[include names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

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

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

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

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

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

[(i) Reasons for the offer [ ]

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

[(ii) Estimated net proceeds: [ ]

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

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

6. **[Fixed Rate Notes only —YIELD**

Indication of yield: [ ]

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

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

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

8. **OPERATIONAL INFORMATION**

ISIN Code: [ ]

Common Code: [ ]

CUSIP Code: [ ]

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

[Note that the designation "Yes" simply means

that the Notes are intended upon issue to be deposited with one of the ICSDs as common

safekeeper [or registered in the name of a nominee of one of the ICIDs acting as common safekeeper] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] *[Include this text if "Yes" selected in which case the Notes must be issued in NGN form]/*

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

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s):

[Not Applicable/give name(s) and number(s)]

Delivery:

Delivery [against/free of] payment

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

Calculation Agent: [     ]

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

### Initial Issue of Notes

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

### Relationship of Accountholders with Clearing Systems

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

### Amendment to Conditions

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

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

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

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

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

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

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

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

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

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

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

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

In relation to the Permanent Global Note only:

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

***Exercise of put option:*** In order to exercise the option contained in Condition 7(f) (*Redemption at the option of Noteholders and Holders exercise of Noteholder's options*) the bearer of the Permanent Global Note must give notice to the Fiscal Agent (via the relevant clearing system) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent for notation.

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

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

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

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

## **USE OF PROCEEDS**

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

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

### **Background**

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

BPEF has no subsidiaries. The authorised share capital of BPEF is €100,000 divided into 100 common shares, each with a par value of €1,000. As of 30 September 2016, the subscribed and fully paid up share capital is €100,000.

The administrative body of BPEF is formed by the following three several but not joint administrators (*administradores solidario*): Mr. Santiago Armada Martínez de Campos (Head of the Funding Department of the Bank) Mr. Roberto Puerto González (Head of the Back-Office of the Bank) and Mr. José Pardo García (Head of the Accountancy Department of the Bank). As at the date of this Base Prospectus, there were no conflicts of interest between any duties owed to BPEF by the members of its administrative body and each of their private, nor any potential conflicts of interest, interests or other duties.

The business address of each of Mr. Santiago Armada Martínez de Campos, Mr. Roberto Puerto González and Mr. José Pardo García is calle José Ortega y Gasset, 29, 28006 Madrid.

The auditors of BPEF are PricewaterhouseCoopers Auditores, S.L.

### **Activities of BPEF**

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

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

As at 30 September 2016, BPEF had €1,333.7 million of senior and subordinated debt securities issued and outstanding. All of these were issued pursuant to the Programme described in this Base Prospectus. As at the date of this Base Prospectus, the aggregate figure remains unchanged.

## BANCO POPULAR ESPAÑOL, S.A.

### Information about Banco Popular

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

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

Banco Popular is incorporated as a *sociedad anónima* (public limited company), and is governed by the Consolidated Text of the Capital Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010, dated 2 July, and associated regulations.

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

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

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

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

### Group Structure

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

### Share Capital

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

On 10 December 2013, the Board of Directors of Banco Popular resolved to carry out a capital increase to offer its shares to a small number of investors. At its meeting held on 11 December 2013, the Delegated Committee resolved to begin an accelerated bookbuilding process through a private accelerated placement, excluding pre-emptive acquisition rights and subject to obtaining the corresponding authorisations of the supervisory and regulatory authorities, for a nominal amount of €56,962,025 through the issuance of 113,924,050 new shares, which represents 6.39 per cent. of the current share capital of Banco Popular. The new shares were issued at a price of three euro and ninety-five cents (€3.95), €0.50 being the nominal value plus a share premium of three euro and forty-five cents (€3.45) per share.

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

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

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

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

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

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

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

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

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

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

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

On 28 January 2015, in relation to the flexible remuneration system for shareholders known as "*Dividendo Banco Popular: un dividendo a su medida*", the Delegated Committee of Banco Popular approved a share capital increase of €3,751,066.50, through the issuance of 7,502,133 new shares in order to attend the subscription requests made by the shareholders.

On 11 March 2015, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 29,629 new shares were issued due to the conversion of 526 bonds.

On 10 June 2015, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 538,174 new shares were issued due to the conversion of 9,521 bonds.

On 10 September 2015, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 74,657 new shares were issued due to the conversion of 1,321 bonds.

On 29 September 2015, in relation to the flexible remuneration system for shareholders known as "*Dividendo Banco Popular: un dividendo a su medida*", the Delegated Committee of Banco Popular approved a share capital increase of €4,829,371.50, through the issuance of 9,658,713 new shares in order to attend the subscription requests made by the shareholders.

On 7 December 2015, in relation to the issue of Subordinated Bonds Compulsorily Convertible into Banco Popular Español shares II/2012, a total of 36,013,245 new shares were issued due to the conversion of 634,424 bonds.

On 20 January 2016, regarding the flexible remuneration system for shareholders known as "*Dividendo Banco Popular: un dividendo a su medida*", the Delegated Committee of Banco Popular approved a share capital increase of €5,366,090.50, through the issuance of 10,732,181 new shares in order to attend the subscription requests made by the shareholders.

On 25 May 2016, the Board of Directors of the Bank resolved to carry out a capital increase of up to €2,505,551,441.25, with preferential subscription rights for existing shareholders (the "**2016 Capital Increase**").

On 17 June 2016, Banco Popular announced that, in accordance with the securities note in respect of the 2016 Capital Increase, registered on 26 May 2016 with the CNMV (the "**2016 Securities Note**"), the 2016 Capital Increase had been fully subscribed to during the preferential subscription period and additional subscription periods. The total number of shares subscribed to during the preferential subscription period and the number of additional shares requested amounted to 2,721,064,492 shares, representing 135.75 per cent. of the 2016 Capital Increase.

The preferential subscription period ended on 11 June 2016. During this period 1,999,048,324 newly-issued ordinary shares of Banco Popular were subscribed to, representing 99.73 per cent. of the 2016 Capital Increase.

During the preferential subscription period, requests were made for 722,016,168 additional shares to be allocated during the additional subscription period, representing 36.02 per cent. of the total 2016 Capital Increase.

As the number of additional shares requested exceeded the number of shares available for allocation (5,392,829 shares), Banco Popular, in its capacity as agent of the 2016 Capital Increase, carried out the pro-rata allocation. The final percentage for the purpose of the calculation of the pro-rata allocation was 0.27 per cent., as described in the Securities Note.

As the 2016 Capital Increase was fully subscribed to during the preferential subscription and additional subscription periods, no discretionary allocation period took place.

On 21 June 2016, in accordance with the expected timetable set out in the 2016 Securities Note, Banco Popular executed the 2016 Capital Increase public deed for subsequent registration in the Mercantile Registry of Madrid. The admission to trading of the new shares from the 2016 Capital Increase on the Spanish Stock Exchanges took place on 22 June 2016, with commencement of trading on 23 June 2016.

As at 31 December 2015 the Board of Directors represented approximately 24.08 per cent. of the Bank's share capital, institutional investors represented approximately 47.21 per cent. of the Bank's share capital and individual shareholders represented approximately 28.71 per cent. of the Bank's share capital.

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

### Principal Subsidiaries

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

- Wizink Bank, S.A., specialising in Internet banking in Spain (owned 51 per cent. by Värde Partners and 49 per cent. by the Bank);
- Popular Banca Privada, S.A., ("**Popular Banca Privada**") which provides private banking services in Spain (wholly owned subsidiary);
- Banco Popular Portugal, S.A. ("**Banco Popular Portugal**"), a commercial bank operating in Portugal (wholly-owned subsidiary). Banco Popular Portugal shares the Group's technological platform and is fully integrated with its central services, but it also maintains a structure of its own in order to comply with Portuguese regulations and to respond to the specific requirements of its customers;
- TotalBank, which provides a range of business and personal banking and financial products and services in the United States (wholly-owned subsidiary). This entity operates through fourteen branches located in Miami Dade County, in the state of Florida;
- Banco Pastor, S.A.U. ("**Banco Pastor**") which provides banking and financial services within the Spanish region of Galicia, with 236 branches spread throughout the region;
- Allianz Popular, specialising in insurance activities (owned 40 per cent. by the Bank and 60 per cent. by Allianz, SE); and
- Targobank, S.A. is a Spanish financial entity, owned 51 per cent. by the French Group Crédit Mutuel-CIC and 49 per cent. by the Bank.

### Other Subsidiaries and Affiliates

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

The following table summarises the companies making up the Group and the Bank's ownership of such companies as at 31 December 2015:

	Registered Office	Business	Ownership Interest (per cent.)		
			Direct	Indirect	Total
<b>Deposit-taking companies:</b>					
Banco Pastor, S.A.U	A Coruña	Banking	100	—	100
Banco Popular Portugal, S.A.	Lisbon	Banking	100	—	100
Popular Banca Privada, S.A.	Madrid	Banking	92.5	7.50	100
TotalBank	Miami	Banking	100	—	100
<b>Financing companies:</b>					
Popular Factoring, S.A. (Portugal).	Lisbon	Factoring	99.83	—	99.83
Popular de Factoring, S.A.	Madrid	Factoring	100	—	100
<b>Holding &amp; Services Companies:</b>					
Gestora Popular, S.A.	Madrid	Portfolio and holding company	35	65	100
Popular Servicios Financieros EFC, S.A.	A Coruña	Finance special purpose entity	100	-	100
Popular Bolsa SV, S.A.	Madrid	Stockbroker	100	—	100

	Registered Office	Business	Ownership Interest (per cent.)		
			Direct	Indirect	Total
Popular Gestão de Activos, S.A.	Lisbon	Investment fund management	100	—	100
Popular de Participaciones Financieras, S.A..	Madrid	Venture capital	100	—	100
Grupo La Toja Hoteles	A Coruña	Holding company	90.00	—	90.00
Sobrinos de Jose Pastor Inversiones, S.A.	Madrid	Holding company	100	—	100
Pastor Privada Investment 1, S.L.	A Coruña	Holding company	—	5	5
Pastor Privada Investment 2, S.L.	A Coruña	Holding company	100	—	100
Pastor Privada Investment 3, S.L.	A Coruña	Holding company	—	5	5
Popular Gestión Privada SGIC, S.A.	Madrid	Investment Fund management	—	100	100
<b>Instrumentality companies:</b>					
Aliseda, S.A.	Madrid	Real estate development	100	—	100
BPE Financiaciones, S.A.	Madrid	Finance Special Purpose Entity	90	10	100
BPE Preference International, L.T.D.	George Town	Finance Special Purpose Entity	100	—	100
Consulteam-Consultores de Gestão, Lda.	Lisbon	Real estate	86.28	13.72	100
Finespa, S.A.	Madrid	Real estate	4.19	95.81	100
Fondo Imopopular, FEIIF	Lisbon	Property investment fund	90	10	100
Fundo Popular Predifundo	Lisbon	Investment property fund	—	99.96	99.96
Gestora Europea de Inversiones, S.A	Madrid	Service Instrumental	99.9	0.1	100
Hercepopular S.L.	Guadalajara	Real state	—	51	51
Gold Leaf Title Company	Miami	Finance Special Purpose Entity	—	100	100
Inmobiliaria Viagracia, S.A.	Madrid	Real estate	100	—	100
Intermediación y Servicios Tecnológicos, S.A.	Madrid	Services Instrumentality	99.5	0.5	100
Inversiones Inmobiliarias Alprosa, S.L.	Madrid	Real estate development	68.25	31.75	100
Inversiones Inmobiliarias Canvives, S.L	Madrid	Real estate development	100	—	100
Inversiones Inmobiliarias Cedaceros, S.L	Madrid	Real estate development	—	100	100
Inversiones Inmobiliarias Gercebio, S.L..	Madrid	Real estate	—	100	100
Inversiones Inmobiliarias Jeráguilas, S.L.	Madrid	Real estate development	—	100	100
Inversiones Inmobiliarias Tamadaba, S.L.	Las Palmas	Real estate development	100	—	100
Isla de los Buques, S.A	Madrid	Finance Special Purpose Entity	99.98	0.02	100
Meglaha, S.L.	Madrid	Real estate development	—	100	100
Popular Capital, S.A	Madrid	Finance Special Purpose Entity	90	10	100
Popular de Mediación, S.A	Madrid	Insurance brokering	100	—	100
Popular Español Asia Trade, L.T.D	Hong Kong	Finance Special Purpose Entity	100	—	100
Red Leaf Holding	Miami	Real estate	100	—	100
Urbanizadora Española S.A	Madrid	Real estate	7.19	90.55	97.74
IM Cédulas Grupo Banco Popular 3, FTA	Madrid	Asset securitisation fund	100	—	100
IM Banco Popular MBS 2, FTA	Madrid	Asset securitisation fund	100	—	100
BPE Representações y Participações, L.T.D.A.	São Paulo	Finance Special Purpose Entity	100	—	100
IM Grupo Banco Popular Empresas 1, FTA	Madrid	Asset securitisation fund	100	—	100
IM Grupo Banco Popular FT PYME I, FTA	Madrid	Asset securitisation fund	100	—	100
Popular Arrendamiento-FIIF para Arrendamiento Habitacional	Lisbon	Property investment fund	84.42	15.58	100
FIB Realty Corporation	Miami	Dormant	—	100	100
Total Sunset INC	Miami	Dormant	—	100	100
IM Grupo Banco Popular Empresas 5, FTA	Madrid	Asset securitisation fund	100	—	100
Pastor Participaciones Preferentes, S.A.	Madrid	Finance Special Purpose Entity	100	—	100
Velázquez 34, S.A.	Madrid	Real estate	97.8	2.2	100
BPP Asesores, S.A.	Buenos Aires	Finance Special Purpose Entity	77.30	22.70	100
EDT FTPYME Pastor 3	Madrid	Asset securitisation fund	100	—	100

	Registered Office	Business	Ownership Interest (per cent.)		
			Direct	Indirect	Total
GC FTPYME Pastor 4	Madrid	Asset securitisation fund	100	—	100
IM Grupo Banco Popular Empresas 6, FTA	Madrid	Asset securitisation fund	100	-	100
IM Grupo Banco Popular MBS 3, FTA	Madrid	Asset securitisation fund	100	-	100
Limatesa Gestión de Servicios Integrales, S.L.	Madrid	Finance Special Purpose Entity	100	-	100
Manberor, S.A.	Madrid	Real estate development	-	100	100
Popular Compras, S.L.U.	Madrid	Internet Retail Trade	100	-	100
<b>Non-financial companies:</b>					
Eurovida, S.A (Portugal)	Lisbon	Insurance	84.07	15.93	100
Popular de Renting, S.A.	Madrid	Renting	100	—	100
Popular de Seguros, S.A.	Lisbon	Insurance	—	100	100
Vilamar Gestión, S.L.	Madrid	Real estate development	—	100	100
General de Terrenos y Edificios Servicios Integrales, S.L.	Madrid	Real estate development	—	100	100
Gestora Inmobiliaria La Toja, S.A.	Pontevedra	Real estate development	89.71	10.29	100
General de Terrenos y Edificios, S.L.	Madrid	Real estate development	100	—	100
Inti Entertainment	Santa Cruz de Tenerife	Cinematographic activities	—	99.89	99.89
La Toja, S.A.	A Coruña	Hotels	—	—	—
Pastor Vida, S.A.	Madrid	Insurance	100	—	100
Cercebelo Assets, S.A.	Madrid	Real estate	100	—	100
Promoción Social de Viviendas S.A	Madrid	Asset Holding company	—	91.84	91.84
<b>Multigroup companies:</b>					
Bancopopular-e S.A.	Madrid	Banking	49	—	49
IM Tarjetas 1, FTA	Madrid	Securitization Investment Fund	—	49	49
Inverlur Aguilas I, S.L.	San Sebastián	Real estate development	—	50	50
Inverlur Aguilas II, S.L.	San Sebastián	Real estate development	—	50	50
Sociedad Conjunta para la Emisión y Gestión de medios de Pago "Iberia Cards", S.A.	Madrid	Payment systems	42.5	—	42.5
Popular-e Cobros A.I.E	Madrid	Finance Special Purpose Entity	—	49	49
Popular-e Operador de Banca Seguros Vinculado S.A.U.	Madrid	Finance Special Purpose Entity	—	49	49
Aliseda Servicios de Gestión Inmobiliaria, S.L.	Madrid	Property management	49	—	49
Recbus-Recovery to Business, S.A.	Lisbon	Payment systems	20	-	20
Saite, S.A.	A Coruña	Concession Operator	50	—	50
Saite-Cobal, S.A.	Madrid	Real estate development	—	50	50
<b>Associated companies:</b>					
Allianz Popular, S.L	Barcelona	Insurance	40	—	40
Aviacion Intercontinental, A.I.E.	Madrid	Finance Special Purpose Entity	35	—	35
Inversiones en Resorts Mediterráneos	Murcia	Real estate development	—	43.28	43.28
Aevis Europa S.L	Madrid	Payment systems	27.54	—	27.54
Euroautomatic Cash Entidad de Pago S.L	Madrid	Payment Systems	50	—	50
Gestora patrimonial C/Francisco Sancha 12	Madrid	Payment Systems	27.54	—	27.54
Grupo financiero Ve por Mas S.A. de CV.	México	Financial Services	24.99	—	24.99
Sistema 4B	Madrid	Payment systems	27.54	—	27.54
Master red Europa S.L.	Madrid	Payment Systems	27.54	—	27.54
Targobank	Madrid	Banking	48.98	—	48.98
Targoinmuebles, S.A.	Madrid	Real estate development	—	48.96	48.96
Trindade Fundo de Investimento Imobiliario Fechado	Lisbon	Real estate development	—	50	50
Fotovoltaica Monteflecha, S.L.	Palencia	Photovoltaic energy	—	4.05	4.05
Metrovacesa, S.A.	Madrid	Real estate development	8.00	—	8.00

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

## **Business of the Group**

Banco Popular's business strategy is focused on SMEs, groups and families with a customer-centric business model. Through its specialised subsidiaries it also offers factoring, investment management, mutual and pension funds, stock broking, life assurance and mortgage lending. At the date of this Base Prospectus, Banco Popular's shares are listed on the Spanish Stock Exchanges, which are regulated markets for the purposes of MiFID.

Segment reporting is the basis of the analysis and monitoring of the Group's activities. In the second quarter of 2016 the business segments have been redefined and grouped into two business areas as described below:

### *Main Business*

Total banking business, excluding real estate and related scope. Fundamentally it includes Retail Banking and its sub-businesses (SMEs, consumer, asset management and insurance, etc.), Private Banking, Wholesale Banking, Fixed-Income Portfolio and Market Financing (asset and liability operations with credit institutions, hedge derivatives and raising funds in wholesale markets).

### *Real estate and related business*

Property and credit risk associated with the real estate sector (promotion, construction, purchase/sale or rental of property, housing) both in Spain as well as subsidiaries and real estate shareholdings.

In order to facilitate the comparison of our results of operations by segments, the Banco Popular June 2016 Interim Financial Statements include comparative financial information for the six months period ended 30 June 2015 based on the Bank's new segment reporting structure.

In this Base Prospectus, the financial information as at and for the years ended 31 December 2015 and 2014 is derived from the Banco Popular 2015 Financial Statements and the Banco Popular 2014 Financial Statements and the discussion of the Bank's results for the years ended 31 December 2015 and 2014 is presented under the previous segment reporting structure: Commercial Banking, Asset Management and Insurance, Real State area and Institutional and Market area.

## **Commercial Banking**

The Group's primary activity focuses on providing financial services to approximately 4.8 million customers, companies and families through its extensive branch office network which constitute the foundations of the business. Services undertaken consist of: typical investment activities, capturing resources, assuming off-balance sheet risks and providing all types of financial services.

In 2015, gross income decreased by 1.3 per cent. Due to the decrease in costs and impairment losses, a pre-tax profit of €626.6 million was posted, which was 9.1 per cent. more than the previous year.

The categories into which this segment is subdivided are described below:

### (i) *Banking for Private Individuals*

Banking for private individuals manages 78 per cent. of the Group's total customers. The segment is broken down into *Óptima*, banking for private individuals and mass banking.

*Óptima* is made up of those customers with funds greater than €150,000. The difference between banking for private individuals and mass banking lies in the level of personalised service and degree of association.

The weight of the specific groups of customers on which the Group's business strategy focuses is noteworthy within banking for private individuals because they require a higher level of service. These are homogeneous groups of customers, generally in the same profession.

(ii) *Banking for businesses*

Banking for businesses manages 22 per cent. of the Group's total customers. This segment consists of the public sector, large companies, SMEs, self-employed persons and retail traders, and non-commercial undertakings.

A large company is defined as a company with total assets of over €100 million and revenues of over €100 million.

The SME category comprises medium-sized companies with assets and revenues of between €10 million and €100 million, small companies with assets and revenues of between €1 million and €10 million, and micro companies with assets and revenues of less than €1 million. In addition a distinction is made between self-employed individuals and retail traders, and other companies, the segment in which legal entities such as associations, sports clubs, etc. are included.

### **Commercial Banking in Spain**

In Spain the business is mainly carried out through Banco Popular and, in Galicia, also through Banco Pastor. In both entities the main activity is commercial banking and a distinction may be made between individual and corporate customers. Furthermore, the Group has two specialist banks: Popular Banca Privada (private banking) and the former bancopopular-e (currently, WiZink Bank, S.A.) (cards, 49 per cent. equity holding).

### **Commercial Banking abroad**

The commercial banking business in Portugal is conducted mainly through the Banco Popular Portugal subsidiary and is also focused on retail banking, primarily for SMEs. The total assets at the Portuguese bank totalled €9,138 million at 31 December 2015, of which €6,175 million relates to gross customer loans. For 2014 the latter item increased by 5.7 per cent. Customer deposits at 31 December 2015 stood at €5,016 million, an increase of 23.9 per cent. compared with 31 December 2014.

Banco Popular Portugal has experienced a slight reduction in net interest income, falling by 1.99 per cent. for the year ended 31 December 2015 compared to the year ended 31 December 2014 due primarily to lower prices for contracting loans and receivables, although lower cost of customer funds through the pricing management is noteworthy.

Gross margin for the year ended 31 December 2015 reduced 12.3 per cent. with regard to the year ended 31 December 2014, reaching €162 million. Net operating income for the year ended 31 December 2015 was down on the previous year. Personnel expenses fell slightly (by 0.8 per cent. relative to 2014) and general costs were reduced by 4.32 per cent. For provisions for loan impairment, there has been a decrease of €8 million compared to the year before. The property assets management business was sold, generating income of €48.6 million. This has led to a pre-tax profit of €21.5 million for the year ended 31 December 2015 compared to a loss of €5.4 million the year ended 31 December 2014.

The commercial banking business in the United States is carried out through Totalbank, an entity that was acquired at the end of 2007, and which operates in the State of Florida. At the end of 2015 this bank had 19 branch offices and 332 employees. Its total assets amounted to €2,407 million at 31 December 2015 (which is a 17.1 per cent. increase compared with 2014) of which €1,784 million relates to gross credit to customers (19.57 per cent. higher than the year before). When referring to customer deposits, these have increased 22.17 per cent. compared to 31 December 2014.

The Bank achieved a pre-tax profit of €21.9 million in the year ended 31 December 2015.

### **Asset management and insurance**

The Asset Management and Insurance business unit covers the distribution of investment funds, pension plans and insurance in Spain through Allianz Popular Holding, S.L., in which Banco Popular holds a 40 per cent. stake. This holding company is formed by three companies specific to each activity: Allianz Popular Vida, Compañía de Seguros y Reaseguros S.A; Allianz Popular Pensiones, E.G.F.P., S.A.; and Allianz Popular Asset Management, S.G.I.I.C., S.A. It also includes the distribution of non-life insurance by Allianz through Popular de Mediación, S.L., wholly owned by the Group. This also includes the activity of Popular Banca Privada, wholly owned by the Group.

In the year ended 31 December 2015, gross income decreased as against the year ended 31 December 2014, as no gains were generated by financial assets and liabilities. Even so, the unit contributed €50.7 million to the consolidated profit before tax for the year ended 31 December 2015, which represents a decrease of €35.2 million compared with the year ended 31 December 2014.

2015, like 2014, was a year of keen competition in the sector due to the low prices applied to traditional bank deposits.

(i) *Management of collective investment institutions*

At the end of the year 2015, the assets managed or marketed by the Group in collective investment institutions in Spain amounted to €11,463 million, which represents an increase of 21.0 per cent., compared to €9,499 million at 31 December 2014. The number of participants was 368,378 for the year ended 31 December 2015, up from 328,149 registered participants in the previous year.

As regards the composition of the portfolios, the past year was marked as far as the Group is concerned by an increase in fixed-income and global funds (profiled funds) to the detriment of more conservative monetary funds due to the fact that investors seek higher yields given the low interest rate situation for traditional deposits.

(ii) *Management of individual and group pension plans*

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

The assets managed by Allianz Popular Pensiones at the end of 2015 reached €5,485 million, representing an increase of 2.24 per cent. compared to €5,365 million at the end of December 2014.

The assets managed in individual schemes at 31 December 2015 totalled €4,198 million, with €1,234 million in occupational plans and €53 million in associated schemes.

(iii) *Private banking*

The Group also offers its services to high net worth customers through its specialised bank Popular Banca Privada. Following the integration of the former bancopopular-e (currently, WiZink Bank, S.A. private banking business in 2015, this unit now has around 6,900 customers with a business volume of almost €7,700 million.

The Bank has its own branch offices located in the main Spanish cities, through which it provides its services to both customers from the Group's network as well as direct customers.

Popular Banca Privada is geared towards providing advice and management services to clients with a high economic level, with assets under management or advisory of at least €300,000. The broad range of investment products and services offered are managed by a team of experts in markets, tax, legal, real estate, corporate finance issues and other non-conventional investments. This provides coverage to customer asset needs and allows them to optimise their returns and the tax impact of their decisions.

At the end of 2015 the Group held a 100 per cent. stake in its capital and voting rights. Popular Banca Privada is the only independent bank belonging to a major Spanish financial group that specialises in the professional management of this group of customers.

The integration of the bancopopular-e private banking business and organic growth have facilitated a growth in managed equity of €1,700 million. As at 31 December 2015, Popular Banca Privada had 6,873 specific customers, 1,484 more than in 2014, and managed assets (understood to be total resources and customer investments) totalling €7,676 million, which is 28 per cent. more than at the end of 2014.

In 2014, significant non-recurring income was obtained thanks to Gains on Financial Transactions generated by the sale of part of the Fixed-Income portfolio. If we exclude this significant impact, income grew by 8 per cent. year-on-year in 2015.

Excluding these capital gains from 2014, operating income amounted to €13.2 million for the year ended 31 December 2015, up by 22 per cent. in 2014. Using the same criteria of comparison, profit before tax grew by €8.1 million to €12.8 million at 31 December 2015.

## **Insurance**

The Bank assurance business unit focuses on provident and protection products including life insurance policies, both those used as a means of savings and those linked to loan transactions, and non-life insurance, mainly home, health and motor insurance, and those linked to retirement. The products offered are adapted to each of the Bank's various businesses and customer segments, whether individuals, companies or institutions.

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

The non-life insurance business in Portugal is managed by Popular Seguros. Popular de Mediación also operates as an associated bank assurance partner. Both are 100 per cent. owned by the Group.

## **Real estate area**

The real estate activity has been segregated from the rest of the Group's activities in order to provide a more precise view of the business and to adapt to the Bank's management framework. This area includes the Group's real estate business as well as the real estate assets belonging to Group banks that are managed in an integrated manner in the interests of an orderly disposal of the property assets.

Operating losses before provisions came to €703 million at 31 December 2015, as a result of the high cost of financing assets and of operating costs.

Consolidated pre-tax loss came to €960 million in the year ended 31 December 2015, 6.5 per cent. more than in the previous year.

## **Institutional and market activity**

This heading includes the rest of the activities carried out, among which the following are notable: asset and liability transactions with credit institutions, the trading and available-for-sale financial asset portfolios, asset and liability hedge derivatives, held-to-maturity investment and shareholding portfolio, pension-related asset and liability balances, and raising of funds through issues on wholesale markets.

The Bank's activity in this area focused on the tactical management of its fixed-income portfolio, highlighting the results of financial transactions, although it has been reduced by 36.8 per cent. in the year ended 31 December 2015 compared to 2014.

Profit before tax in the year ended 31 December 2015 came to €397 million, a decrease of 35.4 per cent. compared to the year ended 31 December 2014.

## **Financial Overview**

### **Consolidated Profit**

The Group's consolidated profit for the six month period ended 30 June 2016 was €94 million (compared to €188 million for the same period in 2015).

Net interest income reached €1,080 million in the first half of the year, 4.1 per cent. lower than the first half of 2015. If adjusted by the impact of the elimination of floor clauses affected by the judgment earlier this year, net interest income would have been flat year-on-year. It is noteworthy that the banking business has a greater contribution to this net interest income.

Lower interest rates of deposits continue, and sequentially, in the first half of the year, the average cost of term deposits goes from 0.67 per cent. in the first quarter to 0.60 per cent. in the second. This is a direct consequence of the fall in the average cost of new production, which has gone from 0.4 per cent. in the first three months of the year to 0.34 per cent. in the second quarter. Customer spread stands at 2.40 per cent. On the other hand, the average interest rate of the new loan contracts in the first half of 2016 stood at 2.84 per cent., above the average interest rate of the stock at 2.78 per cent.

The gross income from financial transactions (which fell 39.9 per cent. year-on-year in the first half of the year) remains stable (+0.5 per cent. year-on-year) on a comparable basis if the impact of removing the floor clauses and the contribution the Single Resolution Fund is excluded.

After a very strong performance in 2015, personnel and general expenses continue to reduce, and in the first half fell 1.5 per cent. compared to the same period last year as a result of various expenses' containment and rationalisation initiatives.

This first semester, provisions on loans, real estate and others have reached €694 million, 5.6 per cent. lower than those made in the same period of 2015. Loans coverage at the end of the quarter stood at 39.05 per cent. or at 54.5 per cent. if amortisations are considered.

Net operating income reached €755 million in the half. Excluding the profit/(loss) on financial operations, the impact of the floor clauses and the contribution to the Single Resolution Fund, the operating income increased by 2.5 per cent. with respect to the same period of the previous year. Also, the efficiency ratio for the first quarter of the year stood at 48.13 per cent.

It should also be noted that in the first half of 2016, capital gains of €92.2 million have been registered. A net profit was recorded in the first half of €94 million.

#### **Assets and liabilities and solvency**

At 30 June 2016, the Group had total assets of €163,228 million, compared with €158,650 million at 31 December 2015. At 30 September 2016 the Group had total assets of €156,632 million.

The years ended 31 December 2014 and 2015 were characterised by significant transformations in the regulatory environment of financial institutions' scope of activity.

As a Spanish financial institution, Banco Popular is subject to the CRD IV Directive 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 the CRR which is complemented by several binding regulatory or implementing technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law has taken place through RD-L 14/2013, Law 10/2014, RD 84/2015, Bank of Spain Circular 2/2014 of 31 January and Bank of Spain Circular 2/2016. On 23 November 2016, the European Commission announced a further package of reforms to CRD IV, the BRRD and the SRM Regulation (each of the BRRD and SRM Regulation as defined below), including measures to increase the resilience of EU institutions and enhance financial stability. The timing for the final implementation of these reforms and their impact is unclear as at the date of this Base Prospectus.

Another important change involves the establishment of the Single Supervisory Mechanism (SSM), under which a new single financial supervision system has been created; the European Central Bank and the competent national authorities of Eurozone members participate in this system. To ensure efficient supervision, the SSM established in the SSR Regulation the powers reserved to the ECB and to the national authorities such that the ECB will directly supervise institutions classed as "significant", including Banco Popular, and national authorities will supervise those classed as "less significant".

Prior to assuming full responsibility for supervision, with effect from 4 November 2014, the ECB carried out a comprehensive assessment of institutions with a view to ensuring greater balance sheet transparency.

Banco Popular passed this assessment with a comfortable capital buffer. It has achieved this result without needing to resort to public funding, making the Bank one of the most solvent institutions in the Eurozone, a bank whose strength has been tried and tested and which can cope with very extreme economic situations. Banco Popular was also included in the sample of banks subject to the 2016 EU-

wide stress test coordinated by the EBA. The objective of the EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks and to challenge the capital position of EU banks. During 2016, the ECB and EBA carried out this comprehensive assessment on the main 51 European banks. The Group successfully passed the stress tests.

Following the coming into force of the SSM and to complement this initiative, the second pillar for the establishment of the European Banking Union, the SRM was implemented. The SRM comprises the national resolution authorities (Banco de España as the preventive authority and the FROB as the resolution authority), a Single Resolution Board and a mutualised private fund, the Single Resolution Fund ("**SRF**"), funded by contributions made by institutions (1 per cent. of guaranteed deposits from each country).

The objective of the SRM is to standardise decisions and actions to resolve banking crises and establish the option of resorting to the SRF in the event that bail-ins prove insufficient in covering the costs of the process.

The SRM is enshrined in Regulation 806/2014, which sets out uniform standards and a uniform procedure for resolutions and the BRRD, which grants authorities a series of resolution powers and tools that make it possible to reduce the impact of financial crises by means of: (i) fast detection of institutions' problems and their capital needs; (ii) ensuring the continuation of essential financial and economic functions; and (iii) improving the legal and economic credibility of the process.

In Spain, implementation of the BRRD took place in 2015 with the passing of Law 11/2015 and RD 1012/2015.

The Group continues to give priority to one of the pillars of its management; strengthening its solvency. Capital strength is an unavoidable objective to ensure the development of the activity. The Group's objective is to remain comfortably above the ratios required by current regulations at all times, taking into account the position within the cycle and the implicit characteristics of each ratio, supported by a measurement, planning and control system that will allow to know its needs under normal conditions and under pressure in order to take early action.

In the area of solvency therefore, the minimum thresholds required by the introduction of a new minimum capital requirement based on the Common Equity Tier 1 ("**CET 1**") have changed and are situated at 4.5 per cent., and will reach 7 per cent. when fully applying the capital conservation buffer. The planned implementation schedule for the capital conservation buffer will be 0.625 per cent. in 2016, 1.25 per cent. in 2017, 1.875 per cent. in 2018 before reaching the definitive 2.5 per cent. from 1 January 2019.

Regarding the leverage ratio, it has been incorporated into Basel III and transposed to the CRR as a simple, transparent measurement, not linked to risk of a counter-cyclical nature, the objective of which is to avoid excessive leveraging during boom periods and complement the minimum risk-based capital ratio. This ratio is defined as the ratio of Tier 1 capital to an exposure value. This value is calculated using exposures of on- and off-balance sheet items, including derivatives.

Although the definition and calibration of the leverage ratio will come into force from 2018, the Group carries out an estimation and monitoring of this measurement to ensure that leverage is kept well above the tentative minimum levels currently serving as a reference (3 per cent.). The full application of this regulatory framework will be gradual until 2019, and the regulations themselves establish compliance with a number of transitional provisions.

The table below shows the capital ratios of the Group at 30 June 2016:

	<b>At 30 June 2016</b>
	<i>(thousands of euro except percentages)</i>
<b>Ordinary Tier 1 capital</b> .....	<b>11,650,573</b>
CET 1 ratio (%) .....	15.25
<b>Tier I capital</b> .....	<b>11,650,573</b>
Tier I ratio (%) .....	15.25
<b>Own funds</b> .....	<b>12,145,680</b>
<b>Total capital ratio (%)</b> .....	<b>15.90</b>
Fully loaded Basel III leverage ratio (%) <sup>1</sup> .....	13.55
<b>Total BIS risk-weighted assets*</b> .....	<b>76,372,267</b>

<sup>1</sup> Fully loaded Basel III Leverage ratio in accordance with CRR pro forma

\* Strictly includes the Pillar I requirements

Among the measures taken in 2015 to strengthen capital ratios, the following are worth particular mention:

- The conversion into shares of €645.8 million of the MCN II/2012 issue, which will be counted in full as common equity tier 1 capital (CET 1).
- The issuance of €750 million which will be counted as AT1 (additional tier 1 capital), which has made it possible to strengthen solvency levels and ensure coverage of AT1 equal to 1.5 per cent. of Risk Weighted Assets (RWAs) as required by the CRR. Furthermore, it is a high-trigger issuance with the consequent positive impacts on stress tests.

The Group continues to improve its risk management and control policies in order to reduce the risk of its assets and thus improve its long-term solvency. In this regard, it is worth noting that the Bank has internal credit risk measurement models for a large proportion of its portfolios validated by the Bank of Spain for calculating minimum capital requirements.

The following portfolios have already been validated by the Bank of Spain: (i) Financial institutions, (ii) Large companies, (iii) Medium-sized companies, (iv) Small companies, (v) Retail mortgages and (vi) Project Finance (Slotting Method).

It should also be pointed out that there are other internal models for other portfolios that are currently being validated by the Bank of Spain and, therefore, the capital calculation is performed using the standard method until their use has been authorised. These models form part of the institution's risk management and refer to the micro companies and retail consumer portfolios.

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

During 2015, pursuant to the CRR, the Group updated all calculation parameters used in each of the portfolios for the requirements of which advanced methods are used, taking factors which occurred during the year into account.

As regards the results of the SREP, the European Central Bank has established that Banco Popular must comply with the minimum phased-in ordinary tier 1 capital of 10.25 per cent. This ratio includes both Pillar 1 (4.5 per cent.) and Pillar 2 requirements, including capital conservation buffers (5.75 per cent.). In this regard, it is worth noting that Banco de España has not deemed it necessary for Banco Popular to

maintain an additional buffer during 2016, even though it was included in the "Other Systemically Important Institutions" group. Banco Popular Group has a sufficient buffer in excess of the minimum regulatory requirements, without affecting the current Group policy concerning the distribution of dividends or coupon payment.

## **Liquidity**

The priority financing strategy for the Group has been to obtain retail liabilities through products that meet the needs of its customers while, at the same time, providing stability to its balance sheet. This strategy is based on the capacity to access private individual and company customers through the Group's broad commercial network.

As at 31 December 2015, the commercial gap was €7,713 million, giving a loan to deposit ("LTD") ratio of 109.0 per cent. The €3,379 million improvement in the commercial gap seen over the course of the year is mainly attributable to the increase in demand deposits, albeit partly offset by a decrease in term deposits and mediation loans (*Instituto de Crédito Fiscal* (ICO) and European Investment Bank ("EIB") funding).

In terms of the breakdown of the commercial gap, in 2015, the Group's retail funding increased by €2,516 million to €85,421 million, accounting for 63 per cent. of all funding of the Group, excluding equity, with the following breakdown: (i) 57.4 per cent. demand deposits, term deposits and commercial paper, (ii) 4.7 per cent. ICO and EIB mediation loans and (iii) 0.8 per cent. other operations.

Retail funding is showing great stability in this part of the economic cycle in which demand and term deposits have increased concurrently since 31 December 2014 by €5,522 million, demonstrating the loyalty of the Group's customers.

On the other hand, wholesale funding, representing 14 per cent. of the Group's funding, increased by €322 million in the year ended 31 December 2015. Wholesale funding is diversified into a broad variety of instruments, notably covered bonds, which represent 57 per cent. of this heading. In 2015, the Bank took advantage of issue opportunities that existed in the wholesale markets, placing €4,743 million over the course of the year, consisting of (i) €3,404 million placed in covered bonds, (ii) €589 million placed in senior debt and (iii) €750 million placed in an issue computable as AT1 (additional tier 1 capital), which made it possible to strengthen solvency levels and cover AT1 (1.5 per cent. of RWAs) as required by the regulations.

The reduction in the investment portfolio and the improvement in the commercial gap in 2015 resulted in a change in the structure of funding, reducing the weight of secured funding in repos (and other market issuances). This type of transaction accounts for 13 per cent. of total funding at €17,758 million during the year.

Since 2010, the Bank has been a member of the three main European counterparty clearing houses, LCH London, Paris and Eurex Repo, together with other international banks. This operation is part of the Group's strategy to diversify its funding sources and reduce costs, while increasing liquidity sources guaranteed by liquid assets other than the ECB. The counterparty clearing houses act as guarantors for the transactions carried out between financial entities, allowing risks to be minimised.

Finally, funding from the ECB stood at €14,192 million, which represents 10 per cent. of the Group's total funding. This amount is related to the extraordinary measures approved by the ECB in order to support financing of the real economy through the private sector. Since 2014, the Bank has taken part in the targeted longer-term refinancing operations ("TLTROs") organised by the ECB. These auctions have made it possible to raise funding through to September 2018 at a competitive cost.

## **Credit Quality**

As at December 2015 the Group's total exposure to credit risk amounted to €147,243 million, 4.1 per cent. down on the previous year. If the €7,265 million exposure of lines of credit available to third parties (13 per cent. more than in 2014) is added, the maximum exposure figure rises to €154,508 million (3.4 per cent. less than the €160,010 million in 2014).

The Group's credit risk is fundamentally due to its primary area of business, which has a weight of 76.5 per cent. of the total maximum exposure as of 31 December 2015. This activity mainly consists of lending

to customers, which represent 90.56 per cent., with the remaining 9.44 per cent. relating to contingent risks.

In 2015, the global risk exposure decreased by 3.4 per cent., mainly due to a decrease in counterparty risk in the market activity (11.2 per cent.), which was offset by a 13 per cent. increase in lines available to third parties, together with a reduction of 11.1 per cent. in contingent risks due to a lower balance in guarantees.

In 2015, the risk relating to market activity decreased from €32,646 million in December 2014 to €28,999 million at the end of 2015. This decrease was mainly due to the reduction of the balance of the investment portfolio in December 2015 by the tactical management of the same.

To cover credit risk, the Bank has a specific provision for non-performing loans in accordance with a regulatory established calendar and, in the case of the doubtful, disputed or substandard balances, based on a reasonable estimate of their recoverability.

The downward trend in new NPLs has brought down the NPL ratio for the eighth consecutive quarter, to 12.86 per cent., consolidating the reduction that has been occurring in recent months. The net change in non-performing and doubtful assets remains negative for the fourth consecutive quarter at year-end, reflecting an improved underlying trend for arrears in 2015.

Net new NPLs fell by €833 million, from €308 million in December 2014 to (€525) million at the end of 2015. This improvement is due to a significant reduction in new NPLs (€1,892 million), which more than offsets the decrease in recoveries, which reached €4,627 million in 2015 (€541 million less than the figure for 2014).

### **Investments**

At 31 December 2015, the Bank has a total of 14 representative and 3 collaboration offices in 14 countries.

The Group also has other subsidiaries and maintains interests in other companies that supplement the banking business.

### **Recent Developments**

The most significant acquisitions and disposals of investments in Group entities and other relevant corporate transactions from 31 December 2012 to the date of this Base Prospectus are as follows:

#### **Sale of 50 per cent. stake in ATM Spain business**

On 29 April 2013, the Bank carried out a spin-off of its ATM business in Spain into a newly created company. The Bank then transferred shares representing 50 per cent. of such company's share capital to Euro-Information, *société par actions simplifiée* (French private limited company) ("**Euro-Information**"). The Bank also entered into an operation agreement with the newly created company to regulate the operation of the ATM business.

The Bank received from Euro-Information an initial amount of €30 million. The transaction generated a capital gain of €56 million.

#### **Agreement with Grupo Financiero Ve Por Más S.A. de C.V. (GAB+)**

On 11 December 2013, the Bank entered into an agreement for the acquisition of a 24.9 per cent. stake in the Mexican financial group Grupo Financiero Ve Por Más S.A. de C.V. ("**BX+**"), which was completed in the first half of 2014, once the relevant supervisory and regulatory authorisations were obtained in Spain and Mexico.

As part of this strategic alliance with BX+, majority shareholders of BX+ invested €450 million in the Bank shares. The acquisition was completed using the proceeds raised following a €97.1 million capital increase.

### **Sale of 55 per cent. stake in mortgage and asset loan business**

On 27 December 2013, the Bank and Aliseda, S.A. sold their mortgage and asset loan business to Aliseda Servicios de Gestión Inmobiliaria, S.L. (a majority of which is held by Värde Partners and Kennedy Wilson) ("**Aliseda**"). The sale price was €715 million and the consideration received by the Bank was €393 million. The business manages foreclosed assets and certain loans used in real estate development promotion and construction activities.

As part of the sale of the business to Aliseda, the Bank and Aliseda entered into a 15-year loan services agreement for mortgage and real estate asset loans in relation to certain assets of the Group and Aliseda, S.A. (on an exclusive basis). The initial term is for 10 years with the last 5 years applicable only to those assets then remaining in the portfolio. The parties also entered into a transitional services agreement with an initial 18-month term to assist in the transition of the business to Aliseda.

The completion of the sale entailed the effective transfer of existing contractual arrangements as well as employees of the business to Aliseda. The shares owned by the Bank are subject to a 3 year lock-up from the date of the agreement. The transaction generated a capital gain of €710 million.

### **Acquisition of 40 per cent. of Popular Banca Privada from Dexia**

On 7 January 2014, the Bank purchased Dexia SA's stake in Popular Banca Privada, S.A. for €49.2 million. As a result of this acquisition, the Bank owns 100 per cent. of its private banking subsidiary, which was created in 2001 as a joint venture between the Bank and Dexia Banquet International à Luxembourg.

### **Agreement with BNP Paribas Securities Services**

On 30 April 2014, the Bank agreed to the sale of the depository and custody businesses for its investment funds, pension plans, SICAVs and EPSVs in Spain to BNP Paribas Securities Services, S.C.A. *sucursal en España* (Spanish branch) ("**BNP Paribas**"). Under the sale arrangements, the Bank committed to certain financial guarantees for a certain period of time in the event certain performance targets were not reached by the business. The Bank was also granted a right of first refusal should BNP Paribas decide to sell any of the schemes forming part of the business, with the option for the Bank or a third party of its election to acquire such schemes.

The sale was completed on 30 June 2014 for €50 million in cash plus a variable earn-out upon reaching certain levels of income and fees. The capital gain derived from this sale, amounting to €49.3 million, was recorded under the consolidated income statement under the heading "Gains (losses) on disposals of assets not classified as non-current assets held for sale".

### **Agreement between Bancopopular-e, S.A. (now, WiZink Bank, S.A.) and Citibank España, S.A., with subsequent sale of 51 per cent. of Bancopopular-e, S.A.**

On 23 June 2014, former Bancopopular-e, S.A. (now, Wizink Bank, S.A.) signed an agreement for the acquisition of the retail and credit card business of Citibank España, S.A. As a result of this agreement, the Bank acquired a portfolio of approximately 1.2 million customer accounts, 1.1 million cards, 45 offices and approximately 950 employees, which were all incorporated into Bancopopular-e, S.A. The purchase price paid to Citibank España, S.A. amounted to €241,497 million.

On 18 December 2014, the Bank sold 51 per cent. of Bancopopular-e, S.A. to Värde Partners and Kennedy Wilson, for a sale price of €510 million, which resulted in the Group recording a capital gain of €210.3 million. Also, with the revaluation of the retained interest, a capital gain amounting to €209 million was recognised. After this transaction, the Group owns a 49 per cent. stake in Bancopopular-e, S.A. In accordance with the agreement, the Bank cannot sell its shares without the prior written consent from Värde Partners, subject to certain exceptions.

In addition to the sale to Värde Partners of a 51 per cent. stake in Bancopopular-e, S.A., the Bank and Bancopopular-e, S.A. entered into a service-level agreement on 18 December 2014 ("**SLA**"). Under the terms of the SLA, which has an initial 10-year term, the Bank will act as the exclusive distributor of Bancopopular-e, S.A.'s card business as well as provide other related services for such business. The Bank agreed to a non-compete on this basis and will not create or distribute for a competing card business, except under certain exclusivity commitment carve-outs as agreed in the SLA.

If Bancopopular-e, S.A. decides to create 'new' types of cards outside the scope of its current business, the Bank has first option to enter into an agreement to distribute and provide related services for the new cards, on an exclusivity basis if feasible. A change of control of the Bank or Bancopopular-e, S.A. would result in the early termination of the SLA. A two-year notice period applies should either party wish to terminate the SLA during the initial term or a subsequent extension period.

### **Sale of rights to receivables from marketing pensions and insurance**

On 30 June 2014, the Bank reached an agreement with a number of qualified investors to sell the income streams from fees and commissions in connection with marketing insurance products of Pastor Mixto, F.P (managed by Pastor Vida, S.A. de seguros y reaseguros), and Allianz Popular, S.A., an insurance company 40 per cent.- owned by Banco Popular.

To complete the transaction, the Bank created a new company, Inversiones Financieras Colina, S.A. ("**IFC**"), in which it retained a 1 per cent. stake. In particular, the Bank transferred the risks existing under the household insurance and pension plan portfolios as well as the premium associated with the plan thereunder. The capital gain recorded as a result of this transaction amounted to €96.7 million.

### **IBM Outsourcing Agreement**

On 1 July 2014, the Bank and IBM Global Services S.A. ("**IBM**") entered into an outsourcing agreement for its technology services carried out in Spain. This agreement has an initial 10-year term set to expire on 30 June 2024. The Bank has the right to terminate this agreement without cause at any time following the first two years of the agreement with the termination date to take place six months after IBM has received the termination notice. The agreement grants the right to terminate the agreement if either party is acquired by a competitor of the other. Both parties require the written consent of the other to assign their rights and obligations under this agreement.

### **Prosegur Security Services Agreement**

On 18 May 2015 the Bank and Banco Pastor entered into a two-year security services agreement with Prosegur España, S.L.U. ("**Prosegur**"). The pricing for services and price adjustments for security, transportation and related services for the two banks' tangible assets handled by Prosegur have been agreed between the parties. The total cost to the two banks will be dependent on the amount of services which they request in any given period.

### **Sale of the real estate asset management business unit and other assets in Portugal**

On 9 June 2015, Banco Popular Portugal and Consulteam, which are wholly-owned by the Group, agreed to sell the real estate asset management business unit and some real-estate debt held by Banco Popular Portugal to Recbus – Recovery to Business, S.A. ("**Recbus**"). The sale was completed on 22 July 2015. Quarteira, S.á.R.L., a company controlled by investment funds managed by Carval Investors LLC, a subsidiary of the Cargill Group, holds an 80 per cent. stake in Recbus. The remaining 20 per cent. is held by the Bank. The sale agreement entered into with Recbus included the transfer of all necessary means for the independent development of real-estate management and debt recovery activities, including personnel and tangible assets, from the sellers to Recbus. This sale was carried out by the Group with the objective of maximising the sale price of real-estate assets and maximising the recovery of real-estate debt.

The sale was implemented through the additional execution of the following agreements, among others: an investment agreement and shareholders' agreement (under which a shareholders' loan for around €5 million was granted to Recbus by Banco Popular), a service provision agreement and a transitional services agreement. Banco Popular Portugal also entered into a €38 million facility for certain subordinated loans as lender to Recbus and the Bank as pledgor.

The agreement for the provision of services provides for the provision of exclusive services by Recbus to Banco Popular Portugal for a 10-year period and establishes the services to be provided and their cost. An independent third party certified that the contractual prices were at market rates.

The consideration received by the Group for this transaction amounted to €72.0 million and generated a capital gain of €69.5 million, which was recognised in the income statement under "Gains (losses) on disposals of assets not classified as non-current assets held for sale". Assets transferred to Recbus amounted to €0.3 million.

### **Sale of 50 per cent. stake in Universalpay, Entidad de Pago, S.L.**

On 24 December 2015, the Bank agreed to sell its 50 per cent. stake in Universalpay, Entidad de Pago, S.L. ("**Universalpay**") to EVO Payments International Acquisition GmbH ("**EVO**"), so that the latter would hold 100 per cent. of Universalpay. Universalpay is a company set up by the Bank and EVO in 2013 to operate a merchant acquiring business in Spain. The original share purchase agreement in 2013 includes a put option for EVO to acquire the remaining 50 per cent. stake from the Bank which resulted in the sale on 24 December 2015. The completion of the sale entailed the effective transfer of all risks and benefits held by the Group in the company. The sale price was €94.4 million, 99 per cent. of which was received in cash by 30 December 2015 while the remaining 1 per cent. will be received at a later stage (upon the completion of the relevant technology migration). The agreement includes a subsequent price adjustment to the sale price which should not materially affect the sale price.

As a result of this sale, the Bank recorded a capital gain of €54.8 million, which was recognised in the Group's income statement under "Gains (losses) on disposals of assets not classified as non-current assets held for sale".

### **Purchase of Barclays Bank PLC credit card business in Spain and Portugal**

On 27 April 2016, WiZink Bank, S.A. (former Bancopopular-e, S.A.) agreed to purchase the credit card business of Barclays Bank PLC ("**Barclays**") in Spain and Portugal, with the transaction expected to close in the first half 2017, subject to certain conditions.

As part of the purchase, Barclays and its affiliates agreed to a non-compete provision, which will prevent them from competing in this market, subject to certain exceptions, for a period of 24 months after the closing of the transaction, WiZink Bank, S.A. and its affiliates agreed to a non-solicitation provision in relation to certain key employees of Barclays for a period of 24 months. In addition, as part of the transaction, employees of the business will transfer with the business after the closing of the transaction and certain pension plan arrangements have been agreed between the parties.

### **Business Plan 2012/2014 and Recapitalisation Plan**

On 6 June 2012, the Bank filed a regulatory announcement (*Hecho Relevante*) disclosing its plan to comply with the requirements of Royal Decree-Law 2/2012 and Law 8/2012 (formerly Royal Decree-Law 18/2012). On 27 July 2012, the Bank presented its first half results for 2012 and disclosed information about the development of its Business Plan approved by the Bank of Spain. On 28 September 2012, the Bank of Spain published the results of the stress tests exercise carried out by Oliver Wyman in furtherance of the external financial assistance requested by the Spanish government in the context of the ongoing restructuring and recapitalisation of the Spanish banking sector. For Banco Popular, the results were as follows:

- in the base scenario, the Bank had a capital excess of €677 million; and
- in the adverse scenario the Bank had a capital shortfall of €3,223 million.

In response to the conclusion that the Bank had a capital shortfall under the "adverse" scenario, the Board of Directors submitted a recapitalisation plan to the Bank of Spain (the principal elements of which were approved by the Board of Directors on 30 September 2012 and submitted to the CNMV on 1 October 2012) (the "**Recapitalisation Plan**"). The Bank of Spain approved the Recapitalisation Plan on 31 October 2012. The Bank of Spain concluded, together with the European Commission, that the Bank would be classified as a group 3 bank (entities with needs of capital equal to 2 per cent. or more of risk-weighted assets).

By 31 December 2012, the Bank had successfully completed all the points included in its Recapitalisation Plan.

## Administrative, Management and Supervisory Bodies

### Board of Directors

The table below sets forth, at the date of this Base Prospectus, the names of the members of the Board of Directors of Banco Popular, the respective dates of their appointment their positions within Banco Popular and their membership type:

Last appointed	First appointed	Name	Title	Type
11/04/2016	18/12/2003	Francisco Aparicio Valls	Secretary-Director	Executive
27/07/2016	27/07/2016	Pedro Larena Landeta	CEO	Executive
11/04/2016	11/04/2016	Reyes Calderón Cuadrado	Coordinator Director	Independent
07/04/2014	30/05/2008	Roberto Higuera Montejo	Vice Chairman	Independent
11/04/2016	20/12/2011	Banque Fédérative du Crédit Mutuel <sup>(1)</sup>	Director	Large shareholder
20/12/2011	28/04/2011	Ana María Molins López-Rodó <sup>(2)</sup>	Director	Independent
11/04/2016	30/05/2007	Helena Revoreda Delvecchio	Director	Independent
07/04/2014	14/03/2002	Ángel Carlos Ron Güimil <sup>(3)</sup>	Chairman	Executive
11/04/2016	28/06/1988	Sindicatura de Accionistas de BPE <sup>(4)</sup>	Director	Large shareholder(*)
07/04/2014	19/12/2007	Vicente Tardío Barutel	Director	Large shareholder(*)
11/04/2016	11/06/2012	José María Arias Mosquera <sup>(5)</sup>	Vice Chairman-Director	Large shareholder(*)
11/04/2016	11/04/2016	José Ramón Estevez Puerto	Director	Independent
10/06/2013	30/01/2013	Jorge Oroviogoicochea Ortega	Director	Independent
11/04/2016	11/04/2016	Vicente Pérez Jaime	Director	Independent
28/09/2016	28/09/2016	Jaime Ruiz Sacristán	Director	Large shareholder(*)

(1) François Martin was appointed representative of Banque Fédérative du Crédit Mutuel, on the Board of Directors of the Bank on 28 September 2016, replacing Alain Fradin.

(2) Ana María Molins López-Rodó was appointed Director by co-option on the Board of Directors on 28 April 2011, with her appointment ratified by the Extraordinary General Shareholders Meeting held on 20 December 2011.

(3) On 1 December 2016, the Bank has filed a Significant Fact notice (*Hecho Relevante*) with the CNMV, regarding the opening of the process for succession of the Chairman, Mr. Ángel Carlos Ron Güimil. It is expected that the Board of Directors will unanimously approve the proposal to the Shareholders General Meeting, that Mr. Emilio Saracho Rodríguez de Torres, Director and Chairman of the Board, acts as an executive Director. The succession process is expected to be concluded in the first quarter of 2017.

(4) Representative: Since 11 November 2016, José Francisco Mateu Isturiz replacing Miguel Ángel de Solís Martínez-Campos.

(5) Jose María Arias is a Director on a personal basis.

(\*) Directors are classified as representing large shareholders when their direct or indirect holding exceeds 1 per cent. of the Bank's capital or they were appointed to represent shareholders holding that percentage of the capital.

The table below sets forth the names of the members of the Board of Directors of Banco Popular and their principal activities outside Banco Popular as at the date of this Base Prospectus. As at the date of this Base Prospectus, there were no conflicts of interest in relation to members of the Board of Directors of Banco Popular between any duties owed to Banco Popular and their private interests and other duties.

Name	Company	Position
Aparicio Valls, Francisco.....	Centro Social Universitario Pan de Azúcar, S.A. Francisco Aparicio y Compañía, S.R.C. Banco Pastor, S.A.U. Banco Bx+, S.A. Grupo Financiero Bx+, S.A. Popular Banca Privada, S.A.	Sole Director Sole Director Vice Chairman Director Director Director
Calderón Cuadrado, Reyes.....	Obrascon, Huarte, Lain, S.A. (OHL) Obrascon, Huarte, Lain, S.A. (OHL)	Director Chairman of the Audit Committee and Corporate Governance
Martin, François.....	Banque Fédérative du Crédit Mutuel Targobank, S.A. Groupe Assurances du Crédit Mutuel España Agrupación mutua French Chamber of Commerce	Chief Executive General Manager General Manager Chairman Vice Chairman
Higuera Montejo, Roberto .....	Popular de Mediación, S.A. Popular de Factoring, S.A., E.F.C	Chairman Chairman

<b>Name</b>	<b>Company</b>	<b>Position</b>
	WiZink, S.A.	Member
Molins López-Rodó, Ana María .....	Cementos Molins, S.A.	Vice Chairman and Director
	Inversora Pedralves, S.A.	Director
	Otinix, S.A.	Director
Revoredo Delvecchio, Helena.....	Prosegur, S.A.	Chairman
	Endesa Energía S.A.	Director
Ron Güimil, Ángel Carlos .....	—	—
Sindicatura de Accionistas de BPE (rep. Mateu Isturiz, José Francisco).....	.	.
Tardío Barutel, Vicente.....	Allianz Compañía de Seguros y Reaseguros, S.A	Chairman
Arias Mosquera, José María.....	Banco Pastor, S.A.U.	Chairman
	Fundación Barrié de la Maza	Chairman
	Asociación Española de Banca	Director
	Asociación para el Progreso de la Dirección (Zona Noroeste)	Chairman
	Patronato Príncipe de Asturias	Director
	Asociación Española de Fundaciones	Director
	Fundación Juana de Vega	Director
	Consello da Cultura Galega	Director
	Escuelas Populares Gratuitas	Director
	Museo de Pontevedra	Director
	Consejo Social Universidad de Santiago	Chairman
Estevez Puerto, José Ramón .....	Grupo Estévez de Inversiones Empresariales, S.L.	CEO
	José Estévez, S.A.	Chairman
	Agrícola José Estévez, S.L.	CEO
	Grupo Estévez de Distribución, S.A.	
Oroviogicoechea Ortega, Jorge .....	Transportes Boyaca, S.L.	Officer
Pérez Jaime, Vicente.....		
Ruiz Sacristán, Jaime.....	Grupo Financiero Ve Por Más, S.A. de C.V.	Director
	Banco Ve por Más S.A.	Director
	Bolsa Mejicana de Valores	Chairman
	Mexichem Fluor Comercial S.A. de C.V	Director
	Mexichem Fluor S.A. de C.V.	Director
	Mexichem Soluciones Integrales Holding S.A. de C.V.	Director
	Mexichem Servicios Resinas S.A de C.V	Director
	Mexichem Servicios Resinas Bradley S.A de C.V	Director
	Mexichem Compuestos S.A. de C.V.	Director
	Mexichem S.A.B. de C.V.	Director
	Mexichem Cunalva S.A. de C.V.	Directo

## Delegated Committee

The Board of Directors has delegated all of its powers in favour of the Delegated Committee, except for those which cannot be delegated pursuant to the provisions of the Capital Companies Act (*Ley de Sociedades de Capital*) and Board Regulations (*Reglamentos del Consejo*).

At the date of this Base Prospectus, the Delegated Committee was composed of the following six directors:

<b>Name</b>	<b>Position</b>
Ángel Ron Güimil.....	Chairman
Pedro Larena Landeta .....	Chief Executive Officer
Jorge Oroviogicoechea Ortega .....	Member
Roberto Higuera Montejo .....	Member
José María Arias Mosquera.....	Member
Francisco Aparicio Valls.....	Member - Secretary

The resolutions adopted by the Delegated Committee do not require subsequent ratification by a meeting of the Board of Directors, although the Delegated Committee does inform the Board of Directors about the matters dealt with and the decisions adopted in its meetings.

## Audit Committee

The Audit Committee is entrusted with the task of assisting the Board of Directors in its functions of overseeing and controlling Banco Popular by means of the evaluation of Banco Popular's auditing system, the verification of the independence of the external auditor and the review of the internal control systems. The role of this committee is fundamentally informative and consultative, although, on an exceptional basis, the Board of Directors may delegate decision-making powers to it.

At the date of this Base Prospectus, the Audit Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Roberto Higuera Montejo .....	Chairman
José María Arias Mosquera.....	Member
Jorge Oroviogicoechea Ortega.....	Member

## Risk Committee

The Risk Committee supervises the market and operational credit risks affecting Banco Popular's activity and evaluates continuously the overall risk assumed, its industry and geographic diversification and the hedges that are deemed advisable to preserve the solvency level considered to be necessary, proposing the most adequate policies to obtain these objectives.

At the date of this Base Prospectus, the Risk Committee was composed of the following four directors:

<b>Name</b>	<b>Position</b>
Jorge Oroviogicoechea Ortega.....	Chairman
Roberto Higuera Montejo .....	Member
Vicente Pérez Jaime.....	Member
José Ramón Estevez Puerto .....	Member

## Regulatory Compliance Management

Regulatory Compliance Management reports hierarchically to the General Secretary and functionally to the Audit Committee of the Bank's Board of Directors. The Money Laundering Prevention Office, the Compliance Office, the Public Administration Response Office, the Customer Service Department and the Regulatory Project Implementation Office report to the aforementioned Regulatory Compliance Department.

The Compliance Office is responsible for assessing and managing the risk of non-compliance related to transparency, customer protection and rules of conduct in the areas of: securities markets, market abuse, customer banking products and services, protection of personal data and the prevention of criminal risks relating to the Bank's trading activities and FATCA as well as promoting appropriate training for staff on

these matters. In addition, the Compliance Office proposes corrective actions concerning issues detected, monitoring their implementation and periodically reporting to the Bank's Audit Committee via the Regulatory Compliance Division.

In 2015, the Regulatory Compliance department rearranged its organisational structure, creating the Regulatory Compliance Division.

The main milestones for 2015 in the Regulatory Compliance department include:

#### *Compliance Office*

- the creation of a risks and controls map and a compliance control table;
- the development of a corporate defense model for the prevention of criminal risks;
- adapting the Group to EU Directives including Markets in Financial Instruments Directive II/Markets in Financial Instruments Regulations, Market Abuse Directive and Market Abuse Regulations;
- the supervision of updates to the Group's policies and procedures in its scope of activities; and
- updating to the Compliance Procedures and Manual.

#### *Office for the Prevention of Money Laundering*

- preparing an action plan to improve the efficiency of procedures that ensure compliance with the Customer Acceptance Policy, including updating internal regulations, improving the NORKOM tool and IT developments to ensure the correct application of due diligence measures;
- carrying out a SEPBLAC inspection, which sought to check compliance in terms of transactions involving banknotes and coins, with the formal identification obligation and the duty to preserve the identification documents of those involved and the formal completion of transactions;
- face-to-face training initiatives for all territorial internal auditors and having all employees complete an online training course; and
- collaborating with the external experts who revised the procedures implemented in the Group for the prevention of money laundering and the financing of terrorism.

#### *Public Administrations Response Office*

- automating certain functions to ensure timely and appropriate responses to official memoranda, in particular those relating to corruption and money laundering issues.

#### *Customer Service Department*

- creating a Procedures Manual, perfection of new controls for the supervision of compliance with response times established by the regulations in force, strict requirements which have resulted in a notable reduction in their number and the creation of and updates to new management reports for the different units of the Group as well as for the Regulators;
- creating a specific IT tool to manage complaints and claims at branches, in addition to facilitating control and supervision by the various units responsible for them. Promotion of prior action and activities at source, creating action protocols to prevent claims and complaints being filed with the Customer Service Department and with Supervisory Bodies;
- consolidating information exchange and communication systems with regulators including the EDITRAN platform with Banco de España and the CIFRADO system on the CNMV website; and
- creating a digital historic record of files opened with the customer service department since 2013.

### **Appointments, Governance and Corporate Responsibility Committee**

This Committee must comprise a minimum of three and a maximum of five members, with the number to be set by the Board of Directors. Only non-executive directors of the Board of Directors can be appointed as members of the Committee and at least two of the directors must be independent.

The role of the Committee is fundamentally informative and consultative, although, on an exceptional basis, the Board may delegate decision-making powers to it. Its principal duty is to assist the Board in its functions of the appointment, re-election and dismissal of the directors and of the Senior Management of the Group, to ensure that the directors receive all of the necessary information for the proper discharge of their duties, to evaluate the Board and its Committees, as well as to oversee observance of the rules of governance of the Bank, reviewing compliance with its rules, recommendations and principles on a regular basis.

At the date of this Base Prospectus, the Appointments, Governance and Responsibility Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Reyes Calderón Cuadrado.....	Chairman
Ana María Molins López-Rodó .....	Member
Helena Revoredo Delvecchio.....	Member

### **Remuneration Committee**

The role of the Committee is fundamentally informative and consultative, although, on an exceptional basis, the Board may delegate decision-making powers to it. Its principal duty is to assist the Board in its functions of implementing and overseeing the compensation systems of the Directors and of the Senior Management of the Group.

At the date of this Base Prospectus, the Remuneration Committee was composed of the following three directors:

<b>Name</b>	<b>Position</b>
José Ramón Estevez Puerto .....	Chairman
Ana María Molins López-Rodó .....	Member
Vicente Pérez Jaime.....	Member

### **International Advisory Board**

The International Advisory Board works together with the Board of Directors in the design, development and implementation of the international business strategy, supporting new ideas, contacts and business opportunities. The International Advisory Board is organically and functionally subordinated to the Board of Directors.

At the date of this Base Prospectus, the International Advisory Board was composed of the following three directors:

<b>Name</b>	<b>Position</b>
Jean Olof Richard Carendi.....	Member
Tomás García Madrid .....	Member
Javier Arrigunaga.....	Member

## Senior Management

The following table specifies the senior management of Banco Popular.

Name	Position
Pedro Larena Landeta .....	Chief Executive Officer
Jesús Arellano Escobar .....	Audit Officer
Fernando Rodríguez Baquero .....	Digital Transformation Officer
Alberto Muñoz Fernández .....	Resources Officer
Carlos Balado .....	Head of Communications, Banking and Corporate Relations
Francisco Sancha Bermejo.....	Real Estate and Asset Transformation Officer
Miguel Ángel Moral .....	General Secretary
Javier Moreno .....	Chief Financial Officer
José Ramón Alonso .....	Business Management Officer
José María Sagardoy .....	Chief Risk Officer
Juan José Rubio .....	Specialised Business Officer

As provided by article 26 of the by-laws, the general management of Banco Popular is the technical and executive governing body.

At the date of this Base Prospectus, Banco Popular's Senior Management Committee is formed by Mr. Pedro Larena Landeta, Mr. Jesús Arellano Escobar, Mr. Carlos Balado, Mr. Fernando Rodríguez Baquero, Mr. Miguel Ángel Moral, Mr. Francisco Sancha Bermejo, Mr. Alberto Muñoz Fernández, Mr. José María Sagardoy, Mr. José Ramón Alonso, Mr. Javier Moreno, and Mr. Juan José Rubio.

The principal activities of each member of senior management outside of Banco Popular are set out in the table below:

Name	Company	Title
Pedro Larena Landeta .....	Allianz Popular, S.L.	Vice Chairman
Jesús Arellano Escobar .....	Sociedad Conjunta para la Emisión and Gestión de Medios de Pago EFC, S.A. (IBERIA CARDS)	Director
Miguel Ángel Moral .....	—	—
Alberto Muñoz Fernández .....	—	—
Fernando Rodríguez Baquero .....	—	—
Carlos Balado .....	—	—
Francisco Sancha Bermejo.....	Popular Asia Trade Limited	Director
Javier Moreno .....	Inversiones Inmobiliarias Alprosa, S.L.	Chairman
	Inversiones Inmobiliarias Canvives, S.A.	Chairman
	Inmobiliaria Viagracia, S.A.U.	Chairman
	Isla de los Buques, S.A.	Chairman
José Ramón Alonso .....	Popular de Factoring, S.A., E.F.C.	Director
	Targobank, S.A.	Director
José María Sagardoy .....	Targobank, S.A.	Member
Juan José Rubio .....	Targobank, S.A.	Member
	Iberia Cards, S.A.	Member
	Popular Gestión Privada, S.G.I.I.C., S.A.	Chairman
	Popular Bolsa, Sociedad de Valores, S.A.	Chairman
	Allianz Popular, S.L.	Member

There are no conflicts of interest, or potential conflicts of interest, between any duties toward Banco Popular of any of the persons referred to above and their respective private interests and/or any other duties.

The business address of each member of the Board of Directors and the other members of Banco Popular's management mentioned above is calle Velázquez nº 34, 28001 Madrid, Spain.

### Deferred and contingent bonuses for the Board of Directors' Compensation

No member of Banco Popular's Board of Directors has received any remuneration by membership of the Board of Directors in other companies of the Group for the year ended 31 December 2015.

Until the Ordinary General Shareholders' Meeting held on 13 April 2015, the members of the Board of Directors did not receive any remuneration as a result of their belonging to the Board of Directors of Banco Popular. However, pursuant to Article 217.3 of Royal Legislative Decree 1/2010 of 2 July approving Spain's Corporate Enterprises Act in the version introduced by Law 31/2014 of 3 December for

the improvement of corporate governance, Banco Popular approved at the Ordinary General Shareholders' Meeting held on 13 April 2015 a maximum annual amount of €2,500,000, which is to be paid to all its directors in their capacity as such. This amount will be the same until the General Shareholders' Meeting passes a resolution to amend such account.

At the General Shareholders' Meeting held on 13 April 2015, at the request of the Board of Directors, Banco Popular's directors' remuneration policy was adopted for the period 2015-2018 (the "**Remuneration Policy**"). Pursuant to article 26 of the bylaws (as amended in 2015) and article 21 of the Board Regulations, Banco Popular's director Remuneration Policy distinguishes between compensation for directors in their capacity as such, and compensation for executive directors.

#### *Compensation for directors*

Pursuant to article 26 of the bylaws, the remuneration of non-executive directors consists exclusively of a non-variable component.

The Remuneration Policy sets out that at the General Shareholders' Meeting the maximum amount of remuneration is to be set, with the Board of Directors being responsible for the distribution to the directors, additionally giving the Board of Directors the discretion to distribute lower than the maximum amount when they deem this necessary.

As of the General Shareholders' Meeting held on 13 April 2015, this maximum amount to be paid to directors as a whole for their role as director (i.e. not including any compensation to the three executive directors for their executive functions) was set at €2.5 million and the Board of Directors decided to distribute the amount of €120,000 to each director, excluding certain amounts relating to per diems and exclusive of remuneration related to membership of any of the Bank's committees. Such maximum amount will remain in force until a General Shareholders' Meeting resolves otherwise.

#### *Compensation for executive directors*

The executive directors' remuneration policy reflects the professional experience and responsibility required for such a position and has the aim of being competitive against industry peers.

Pursuant to the bylaws, the Board of Directors is responsible for setting the remuneration of executive directors. In application of this system, at the proposal of the Remuneration Committee, the Board of Directors has agreed that executive directors will receive the following non-variable remuneration in 2016:

<b>Position</b>	<b>Director</b>	<b>Non-variable/salary</b>	<b>Non-variable/additional performance based amount</b>	<b>Total</b>
Chairman	Ángel Ron Güimil.....	€1,100,000	€250,000	€1,350,000
CEO	Francisco Gómez Martín*	€ 700,000	€250,000	€ 950,000
Secretary	Francisco María Aparicio Valls .....	€ 525,000	€125,000	€ 650,000

\*Francisco Gómez Martín is the ex-CEO of the Bank.

Executive directors may receive variable remuneration in the form of shares or cash. The granting of remuneration in favour of executive directors in the form of shares or stock options must be agreed in advance by the General Shareholders' Meeting, which shall determine the maximum number of shares to be assigned each year, the price (or the price calculation method) of the stock options, the value of the shares used as a benchmark and the duration of the remuneration system.

The variable items of total remuneration for executive directors (including both the annual and multi-year variable remuneration systems) for 2016 will not exceed 100 per cent. of the fixed items of total remuneration for each director, pursuant to the provisions of article 34.1.g.1. of Law 10/2014.

Pursuant to the Remuneration Policy for 2016, the variable remuneration of executive directors will be determined dependent upon achieving certain objectives set by the Board of Directors at the proposal of the Remuneration Committee. The 2016 variable remuneration system is based on a number of financial indicators linked to the Bank's results and business performance, together with various nonfinancial indicators, avoiding excessive risk concentrations.

Under the 2016 variable remuneration system, if the objectives are met, the executive directors will receive 50 per cent. of their remuneration (50 per cent. in cash and 50 per cent. in the Bank shares) in the first quarter of 2017. The remaining 50 per cent. will be deferred for payment in thirds in 2018, 2019 and 2020 (with each such deferred payment being paid 50 per cent. in cash and 50 per cent. in the Bank shares). If all objectives are achieved, the absolute value of the variable remuneration would total €1,475,000.

Lastly, during the first quarter of 2016 the executive directors have received the deferred parts of the variable remuneration systems for 2013 and 2014.

#### *Other remuneration*

Directors are beneficiaries of medical and accident insurance policies taken out by the Bank under the same terms and conditions as those of the rest of the Bank's senior officers. The Bank pays the premiums, which are attributed to the directors as non-cash remuneration and in 2015 the Bank paid €16,000 in premiums on such policies in favour of executive directors. There are no termination benefit clauses in the event of termination of the appointment as director.

#### *Pension schemes*

The contracts of executive directors recognise the provisions of the bylaws, which stipulate that senior management and the Board of Directors, after performing their functions at the Bank for twenty years, whether continuous or not, are entitled to a pension for retirement, disability or death.

A pension entitlement is recognised for executive directors, that, in addition to their social security pensions, is equal to the remuneration, excluding individual performance-based bonuses, that they would receive from the Bank in a year, when, whether voluntarily or not, and irrespective of their age, they are not reappointed to their post and functions, or when it is found that they are not capable of performing the said post due to illness or disability, or they have reached the age of 65 whilst performing their functions and do not wish to remain in their post.

The provisions of the previous paragraph also apply when the functions of the executive director or member of senior management are exercised for less than twenty years, but exceed five. In such an event, the value of the pension will be calculated as the twentieth part of the fixed remuneration being received multiplied by the number of years of service.

Executive directors are entitled to receive an annual disability pension which, in addition to their social security pensions, is equal to the remuneration, excluding individual performance-based bonuses, they earned from the Bank in the year up to the date they became disabled.

In case of death of an executive director, a pension for the surviving widow and/or children is payable under the same circumstances and scope and limitations as that applicable to the rest of the Bank's employees, taking as a reference the annual remuneration, excluding individual performance-based bonuses, paid up to the time of death.

The cost to the Group in 2015 of the pension commitments for beneficiary directors amounted to €626 thousand. The accrued rights and mathematical reserves linked to the pension rights of the current beneficiary directors amounted to an aggregate amount of €42.7 million which, added to the €34 million outstanding to former directors, totalled €76.7 million as of 31 December 2015.

## Compensation of directors in 2015

The following table shows the compensation received by members of the Board of Directors in 2015:

Name	Salary + Additional performance based amount	Non-variable Remuneration	Total
<i>(in thousands of euro)</i>			
Francisco Aparicio Valls.....	650	120	770
José María Arias Mosquera.....	-	120	120
Antonio del Valle.....	-	120	120
Banque Federative du Crédit Mutuel (Rep. Alain Fradin) .....	-	120	120
Fundación Barrié de la Maza* .....	-	120	120
Francisco Gómez Martín.....	950	120	1.070
Luis Herrando* .....	-	120	120
Roberto Higuera Montejo .....	-	120	120
Ana María Molins López-Rodó .....	-	120	120
Jorge Oroviogoechea Ortega .....	-	120	120
Helena Revoredo Delvecchio.....	-	120	120
Ángel Ron Güimil.....	1,350	120	1,470
Sindicatura de Accionistas BPE.....	-	120	120
Unión Europea de Inversiones, S.A.* .....	-	120	120
Vicente Tardío Barutel.....	-	120	120
<b>Total .....</b>	<b>2,950</b>	<b>1,800</b>	<b>4,750</b>

\*Antonio del Valle Ruiz, Alain Fradin, Fundación Barrié de la Maza, Francisco Gómez Martín, Luis Herrando and Unión Europea de Inversiones are no longer Directors anymore as of the date of Base Prospectus.

The directors and the companies related thereto have not received any other remuneration from the Bank or from any company in the Group other than that referred to in the table above, the previous figures being from overall amounts relative to the Group.

No variable remuneration was paid out in 2015. In 2015, the Board of Directors decided to allocate net profit of €350 million to a provision for a possible legal risk arising from the potential repayments in relation to interest rate floor clauses on mortgages. Under the remuneration system for 2015, the Group needed to achieve a certain level of net profit in order to pay out variable remuneration and given this provision, this target was not achieved.

The following table sets out the number of "units" allocated (eventually convertible into the Bank's shares) to each executive director as of 31 December 2015, under the long-term remuneration plan approved by the General Shareholders' Meeting held on 10 June 2013. This refers to the third cycle (out of four) established in the long-term remuneration plan which shall be quantified in shares and delivered, if applicable, in 2019.

Director's name	No. of shares deferred for three years (2016-2019)
Francisco Aparicio Valls .....	99,754
Ángel Ron Güimil.....	207,182
Francisco Gómez Martín*.....	145,794

\*Francisco Gómez Martín is the ex-CEO of the Bank.

The Director and Vice-Chairman José María Arias Mosquera, by virtue of the agreements adopted in the past by Banco Pastor and in effect prior to its integration in Banco Popular, received €1,091 thousand in 2015 for his early retirement as Executive Chairman of Banco Pastor and resignation from its Board, which was charged to provisions established by Banco Pastor prior to its integration in Banco Popular.

## **Employees**

The number of employees of the Group at 31 December 2015 was 15,079 (13,480 in Spain and 1,599 abroad), compared to 15,321 (13,501 in Spain and 1,820 abroad) at 31 December 2014.

At December 2015, of those 13,480 employees in Spain, 8,318 were men and 5,162 were women. Abroad, the number of employees was 1,599, of which 941 were men and 658 women.

The number of employees of the Group at 30 June 2016 was 14,935. The number of employees in Spain was 13,369, of which 8,199 were men and 5,170 women. Abroad, the number of employees was 1,566, of which 922 were men and 644 women.

## **Major Shareholders**

Banco Popular is not aware of the existence of any individual or body corporate exercising, or who could exercise, directly or indirectly, control over it, nor is Banco Popular aware of the existence of any agreement which could lead to a change of control at a subsequent date.

## **Financial Information Concerning Banco Popular's Assets and Liabilities, Financial Position and Profits and Losses**

The Banco Popular 2015 Financial Statements, the Banco Popular 2014 Financial Statements and the Banco Popular June 2016 Interim Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS-EU**") and have been incorporated by reference in this Base Prospectus.

The above mentioned financial statements were audited by PricewaterhouseCoopers Auditores, S.L., the auditors of Banco Popular (registered in the Official Registry of Auditors of Accounts (*Registro Oficial de Auditores de Cuentas*) under number SO.242). The auditor is a member of the following professional bodies in Spain (i) Institute of Chartered Accountants (*Instituto de Censores Jurados de Cuentas de España*) and (ii) *Registro Oficial de Auditores de Cuentas*. The auditors have not resigned, been removed or re-appointed during the period covered by the historical financial information contained herein.

No other information concerning Banco Popular in this Base Prospectus has been audited by PricewaterhouseCoopers Auditores, S.L.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions contained in a dealer agreement dated 22 December 2016 (the "**Dealer Agreement**" as amended, supplemented or restated from time to time) between the Issuers, the Guarantor, the Arranger and the Dealers, the Notes will be offered on a continuous basis by the Issuers to the Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to other dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Dealers. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

Each of the Issuers failing whom, the Guarantor (in the case of Notes issued by BPEF only) has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the relevant Issuer or, in relation to itself and the relevant Issuer only, by any Dealer, at any time on giving not less than ten business days' notice.

### 1. UNITED STATES OF AMERICA

1.1 The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold any Notes, and will offer and sell any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Tranche. Each Dealer also agreed, and each further Dealer appointed under the Programme will be required to agree that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this subclause 1.1 have the meanings given to them by Regulation S.

1.2 Each Dealer has represented and agreed, and each further Dealer appointed under the Dealer Agreement will be required to agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

1.3 In addition in respect of Notes where TEFRA D is specified in the applicable Final Terms:

- (a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the "**D Rules**"), each Dealer (i) has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not offered or sold, and

has agreed that during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not delivered and has agreed that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

- (b) each Dealer has represented, and each further Dealer appointed under the Programme will be required to represent that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if it is a United States person, each Dealer has represented, and each further Dealer will be required to represent, that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6);
- (d) with respect to each affiliate that acquires Notes in bearer form from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has repeated and confirmed, and each further Dealer appointed under the Programme will be required to repeat and confirm, the representations and agreements contained in subclauses 1.3(a), 1.3(b), 1.3(c) and 1.3(d) on such affiliate's behalf; and
- (e) each Dealer obtained, and each further Dealer appointed under the Programme will be required to obtain, for the benefit of the Issuer the representations and agreements contained in subclauses 1.3(a), 1.3(b), 1.3(c), 1.3(d), and 1.3(e) from any person other than its affiliate with whom it enters into a written contract for the offer or sale during the restricted period of Notes in bearer form.

Terms used in this subclause 1.3 have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules as in effect from 18 March 2012.

- 1.4 In respect of Notes where TEFRA C is specified in the applicable Final Terms, such Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, in connection with the original issuance of such Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Notes.

## 2. UNITED KINGDOM

In relation to each Tranche of Notes, the Dealers subscribing for or purchasing such Notes have represented to and agreed with, or will represent to and agree with, the relevant Issuer, the Guarantor (if applicable) and each other such Dealer (if any) that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:

- (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:
- (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
  - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
  - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;
- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor (if applicable); and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### 3. THE KINGDOM OF SPAIN

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold in Spain other than by institutions authorised under the 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, and in compliance with the provisions of the Securities Market Law and any other applicable legislation, **provided that** offers of the Notes shall not be directed specifically at or made to investors located in Spain.

### 4. REPUBLIC OF ITALY

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation. Each Dealer has represented and agreed, and each further Dealer will be required to represent and agree, that any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time);
- (ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or

the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

5. **FRANCE**

Each of the Dealers has represented and agreed, and each further Dealer will be required to represent and agree that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

6. **GENERAL**

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, to the relevant Issuer and Guarantor (if applicable) that it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any Drawdown Prospectus or any Final Terms or any related offering material, in all cases at its own expense.

## TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS

*The information provided below does not purport to be a complete summary of tax law and practice currently applicable and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Other than in accordance with Condition 9, neither of the Issuers nor the Guarantor assumes responsibility for withholding taxes. Prospective investors who are in any doubts as to their position should consult with their own professional advisers.*

### **The proposed Financial Transactions Tax ("FTT")**

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

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

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

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

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

### **The Kingdom of Spain**

#### ***Introduction***

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Base Prospectus:

- (a) of general application, Additional Provision One of Law 10/2014 and Royal Decree 1065/2007 establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules as amended by Royal Decree 1145/2011 of 29 July;
- (b) for individuals with tax residency in Spain who are personal income tax ("**Personal Income Tax**") tax payers, Law 35/2006, of 28 November 2006 on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Residents Income Tax Law and Wealth Tax Law as amended by Law 26/2014 of, 27 November and Royal Decree-law 9/2015, of 15 July (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March 2007 promulgating the Personal Income Tax Regulations as amended by Royal Decree 633/2015, of 10 July, along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008 and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporate income tax ("**Corporate Income Tax**") taxpayers, Law 27/2014, of 27 November, of the Corporate Income Tax Law applicable on the tax periods starting as of 1 January 2015 and Royal Decree 634/2015, of 10

July promulgating the Corporate Income Tax Regulations (the "**Corporate Income Tax Regulations**"); and

- (d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax ("**Non-Resident Income Tax**") taxpayers, Royal Legislative Decree 5/2004, of 5 March 2004 promulgating the Consolidated Text of the Non-Resident Income Tax Law as amended by Law 26/2014, of 27 November, and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations as amended by Royal Decree 633/2015, of 10 July ("**Non-Resident Income Tax Law**"), along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008, Royal Decree-Law 13/2011 as amended by Law 36/2014, of 26 December and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of a beneficial interest in the Notes (each, a "**Beneficial Owner**"), the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September 1993, and exempt from value added tax, in accordance with Law 37/1992, of 28 December 1992 regulating such tax.

## 1. **Individuals with Tax Residency in Spain**

### 1.1 ***Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

Payments of income deriving from the transfer, redemption or repayment of the Notes would constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and should be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently at the rate of 19 per cent for taxable income up to €6,000; 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income exceeding €50,000.

According to Section 44.5 of Royal Decree 1065/2007, of 27 July, the Issuer will make interest payments to individual holders who are resident for tax purposes in Spain without withholding **provided that** the relevant information about the Notes is submitted. In addition, income obtained upon transfer, redemption or exchange of the Notes may also be paid without withholding. However, in the case of Notes held by Spanish resident individuals and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the current rate of 19 per cent. which will be made by the depositary or custodian.

### ***Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*)). Therefore, they should take into account the value of the Notes which they hold as at 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. As at the date of this Base Prospectus, the applicable tax rates currently range between 7.65 per cent. and 34 per cent. Relevant factors applied (such as previous net wealth or family relationship among transferor and transferee) determine the final effective tax rate that range, as of the date of this Base Prospectus, between 0 per cent. and 81.6 per cent.

## 2. **Legal Entities with Tax Residency in Spain**

### 2.1 ***Corporate Income Tax (Impuesto sobre Sociedades)***

Payments of income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital

and would have to be included in profit and taxable income of legal entities with tax residency in Spain for Corporate Income Tax purposes in accordance with the rules for Corporate Income Tax and subject to the general rate of 25 per cent.

In accordance with Section 44.5 of Royal Decree 1065/2007, of 27 July, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold on interest payments to Spanish CIT taxpayers **provided that** the relevant information about the Notes is submitted. However, in the case of Notes held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes may be subject to withholding tax at the applicable rate of 19 per cent. which will be made by the depositary or custodian, if the Notes do not comply with exemption requirements specified in the Reply to the Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

2.2 ***Wealth Tax (Impuesto sobre el Patrimonio)***

Spanish resident legal entities are not subject to Wealth Tax.

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

Legal entities tax resident in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Notes in their taxable income for Spanish Corporate Income Tax purposes.

3. **Individuals and Legal Entities with no Tax Residency in Spain**

3.1 ***Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)***

(a) *Non-Spanish resident investors acting through a permanent establishment in Spain*

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are the same as those for Spanish Corporate Income Tax taxpayers.

(b) *Non-Spanish resident investors not acting through a permanent establishment in Spain*

Payments of income deriving from the transfer, redemption or repayment of the Notes obtained by individuals or entities who have no tax residency in Spain, and which are Non- Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from public debt.

3.2 ***Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

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

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

Individuals not tax resident in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a

double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with the Spanish legislation applicable in the relevant autonomous region (*Comunidad Autónoma*).

Non-Spanish resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

4. **Tax Rules for payments made by the Guarantor**

Payments which may be made by the Guarantor to holders, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by BPEF.

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

Each Issuer and the Guarantor (if applicable) are currently required by Spanish law to file an annual return with the Spanish tax authorities in which they report on certain information relating to the Notes. In accordance with Section 44 of Royal Decree 1065/2007, for the purpose of preparing the annual return referred to above, certain information with respect to the Notes must be submitted to the relevant Issuer and the Guarantor (if applicable) at the time of each payment.

Such information would be the following:

- (a) Identification of the Notes in respect of which the relevant payment is made;
- (b) Date on which relevant redemption is made;
- (c) the total amount of the relevant redemption; and
- (d) the amount of the relevant payment and to each entity that manages a clearing and settlement system for securities situated outside Spain.

In particular, the Fiscal Agent must certify the information above about the Notes by means of a certificate the form of which is attached as Annex I of this Base Prospectus. In light of the above, the Issuer and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes.

In light of the above, each Issuer, the Guarantor (if applicable) and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Notes. If, despite these procedures, the relevant information is not received by the relevant Issuer and the Guarantor (if applicable), the relevant Issuer may be required to withhold at the applicable rate of 19 per cent. from any payment in respect of the relevant Notes as to which the required information has not been provided. In that event the relevant Issuer or Guarantor (if applicable) will pay such additional amounts as will result in receipt by the Noteholders of such amount as would have been received by them had no such withholding been required.

The procedures for providing documentation referred to in this section are set out in detail in the amended and restated fiscal agency agreement dated 22 December 2016 (the "**Fiscal Agency Agreement**") which may be inspected during normal business hours at the specified office of the Fiscal Agent. In particular, if the Fiscal Agent does not act as common depository, the procedures described in this section will be modified in the manner described in the Fiscal Agency Agreement.

*Set out below is Annex I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in*

*Annex I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.*

## ANNEX I

**Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007**

**Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos**

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

**Don (nombre), con número de identificación fiscal (...)<sup>(1)</sup>, en nombre y representación de (entidad declarante), con número de identificación fiscal (...)<sup>(1)</sup> y domicilio en (...) en calidad de (marcar la letra que proceda):**

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

**(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.**

(a) Management Entity of the Public Debt Market in book entry form.

**(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.**

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

**(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.**

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

**(d) Agente de pagos designado por el emisor.**

(d) Fiscal Agent appointed by the Issuer.

**Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:**

Makes the following statement, according to its own records:

**1. En relación con los apartados 3 y 4 del artículo 44:**

1. In relation to paragraphs 3 and 4 of Article 44:

**1.1 Identificación de los valores .....**

1.1 Identification of the securities.....

**1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

- 1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).....**
- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated).....
- 1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora .....**
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).**
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).
- 2. En relación con el apartado 5 del artículo 44.**
2. In relation to paragraph 5 of Article 44.
- 2.1 Identificación de los valores .....**
- 2.1 Identification of the 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 ....

- <sup>(1)</sup> **En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**
- <sup>(1)</sup> In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

## **Foreign Account Tax Compliance Act ("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 Issuers and the Guarantor may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuers and the Guarantor) 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under "*Terms and Conditions of the Notes — Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

## GENERAL INFORMATION

1. This Base Prospectus has been approved by the Central Bank as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the notes to be admitted to the Official List and trading on its regulated market.

However, Notes may be issued pursuant to the Programme which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

2. Each of BPEF and Banco Popular have obtained all necessary consents, approvals and authorisations in Ireland and the Kingdom of Spain in connection with the establishment of the Programme and the issue and performance of the Notes and the guarantees relating to them. The establishment of the Programme was authorised by the resolution of the shareholders of BPEF passed on 17 April 2007, and the establishment of the Programme and the giving of the guarantees relating to the Notes by the Guarantor was authorised by a resolution of the Delegated Committee of the Guarantor passed on 18 April 2007. The update of the Programme was authorised by the decision of a several but not joint administrator (*administrador solidario*) on 29 November 2016, and by the Delegated Committee of Banco Popular as Issuer and Guarantor on 29 November 2016, respectively.
3. Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "**Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code**".
4. Save as disclosed in this Base Prospectus, there are no pending or threatened governmental, legal or arbitration actions, suits or proceedings against or affecting BPEF or the Banco Popular or any of Banco Popular's subsidiaries, which may have, or have had during the 12 months prior to the date hereof, individually or in the aggregate, a significant effect on the financial position of the Issuers or the Guarantor and, to the best knowledge of the BPEF or the Banco Popular, no such actions, suits or proceedings are threatened or contemplated.
5. Save as disclosed in this Base Prospectus, BPEF has no significant changes in financial and trading position and no material adverse change in prospects since 31 December 2015. There has been no material adverse change in the prospects of the Group since 30 June 2016, the date of the most recent published audited consolidated financial statements of the Group and no significant change in the financial or trading position of the Group since 30 September 2016, the date of the most recent published unaudited consolidated financial information of the Group.
6. Notes will be accepted for clearance through the Euroclear and Clearstream systems. The Common Code and the International Securities Identification Number (ISIN) will be set out in the relevant Final Terms.
7. For so long as the Programme remains in effect or any Notes remain outstanding, the following documents will be available for inspection and (in the case of the items listed under (vii), (viii) and (ix) below) obtainable, during usual business hours on any weekday (Saturdays and public holidays excepted) in physical form, at the registered offices of the Issuers, the Guarantor, the Fiscal Agent and each of the Paying Agents:
  - (i) the amended and restated Fiscal Agency Agreement;
  - (ii) the Programme Manual (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);
  - (iii) the Deed of Covenant;
  - (iv) the Deed of Guarantee;

- (v) the *Estatutos* (together with English translations) of each of the Issuers and the Guarantor;
  - (vi) each of the documents referred to in "*Documents Incorporated by Reference*";
  - (vii) any Final Terms relating to Notes which are listed on the Irish Stock Exchange or which are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system;
  - (viii) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus; and
  - (ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.
8. The consolidated annual accounts of Banco Popular for the years ended 31 December 2015 and 2014 and the condensed interim consolidated financial statements of Banco Popular for the six month period ended 30 June 2016 prepared in accordance with IFRS-EU, were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' reports were unqualified.
  9. The non-consolidated annual accounts of BPEF for the years ended 31 December 2015 and 2014 prepared in accordance with Spanish GAAP were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' report was unqualified.
  10. The unaudited interim consolidated quarterly report of Banco Popular for the nine month period ended 30 September 2016 prepared in accordance with IFRS-EU has not been subject to an audit or a limited review.
  11. Any websites mentioned in this Base Prospectus shall not form part of this Base Prospectus.
  12. Clifford Chance, S.L.P. has acted as legal advisers to the Arranger and Dealers as to Spanish law and English law in relation to the Programme.
  13. There are no material contracts which could result in any member of the Group being under an obligation that is material to the Issuer's ability to meet its obligations to holders of Notes.

## THE ISSUERS

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**Banco Popular Español, S.A.**  
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## THE GUARANTOR

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## ARRANGER AND DEALER

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## DEALERS

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**UBS Limited**  
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United Kingdom

**UniCredit Bank AG**  
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81925 Munich  
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**FISCAL AGENT, PAYING AGENT, CALCULATION AGENT AND TRANSFER AGENT**

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**REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**

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**IRISH LISTING AGENT**

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*To the Issuers and the Guarantor as to Spanish law*

**Corporate Counsel**  
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