

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be attached to each Global Note (as defined below) issued under the Programme which as supplemented, modified or replaced in relation to any Notes by the relevant Final Terms (as defined below) will be applicable to each Global Note issued under the Programme. The applicable Final Terms in relation to any Global Note may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. Thus, references herein to these Terms and Conditions are to these Terms and Conditions as supplemented or modified or (to the extent thereof) replaced by the Final Terms.

The Notes are issued by Decree of the Andorran Government (the "**Decree**").

References in these Terms and Conditions to the final terms ("**Final Terms**") are to the Final Terms prepared in relation to the Notes issued under the Programme.

1. Form, Denomination and Currency

Form of the Notes

Notes issued under the Programme will only be represented in the form of a Registered Global Note ("**Global Note**"), which will be held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Global Notes will be deposited and registered with a common depositary for Euroclear and Clearstream, Luxembourg ("**Common Depositary**"), or a nominee of the Common Depositary, as specified in the applicable Final Terms.

Denomination

Notes issued under the Programme will be issued in the denomination specified in the Final Terms.

Currency of Notes

Notes issued under the Programme will be denominated in Euros.

2. Title and Transfer

Title

Notes will be represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg.

Each person who is for the time being shown in the records of Euroclear and/or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the holder of the relevant Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with Condition 9 (*Payments*) below.

Transfer

So far as the Notes to be issued under this Programme will be accepted for clearance through Euroclear and/or Clearstream, Luxembourg, which are the entities in charge of keeping the records, transfer of beneficial interests in Global Notes within the Common Depository, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Transfers of beneficial interests in Global Notes will be effected by the Common Depository, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests.

The customary arrangements for delivery versus payment will apply to such transfers.

Notwithstanding the above, if any Notes issued under the Programme are admitted to listing and trading on a regulated or unregulated market, the rules and regulations of such market shall apply.

Transfer free of charge

Registration of transfer will be effected without charge by or on behalf of the Issuer, but upon payment in respect of any stamp duty, tax, fee or other governmental charges that may be imposed in relation to the registration according to the applicable laws.

Closed Periods

No holder of beneficial interests in the Global Notes may require the transfer of said beneficial interests to be registered during the period of 15 days ending on the due date for any payment (of principal and/or interest) in respect to that Note.

3. Status of the Notes

Notes issued under the Programme constitute direct, unconditional, unsecured and general obligations of the Issuer and rank *pari passu* among themselves and equally with all other loan or bond indebtedness of the Issuer resulting from financial debts, present or future.

The Issuer pledges its full faith and credit for the due and punctual payment of the principal of, interest on and any payment on the Notes.

4. Interest

Notes issued under the Programme will be interest-bearing or non interest-bearing, as specified in the Final Terms. In case of interest-bearing instruments, interest shall accrue a fixed rate and may vary during the lifetime of the relevant Series, as specified in the Final Terms.

4.1 Interest-bearing instruments: Fixed interest rate Notes

Fixed rate Notes issued under the Programme will pay a nominal annual fixed interest rate, as specified in the Final Terms, for the whole life of the issue.

Notes will bear interests from (and including) the Settlement Date (as defined in the Relevant Final terms) until (and excluding) the maturity date, both dates as specified on the Final Terms.

Interests will be paid on a yearly basis in arrears and according to the calendar of payments specified in the Final Terms for each issuance under the Programme.

In each earning period of interest ("**Earning Period of Interest**"), days run from one Interest Payment Date (as specified on the Final Terms), excluded, to the next Interest Payment Date, included. The first Earning Period of Interest shall begin on the First Earning Period of Interest Commencement Date, as specified on the Final Terms, included.

4.2 Calculation of interest

The Paying Agent will determine the rate of interest for the relevant Earning Period of Interest as soon as practicable each time the rate of interest is to be determined.

The Paying Agent will calculate the amount of interest payable of each Earning Period of Interest by applying the following formula basis as follows:

$$I = \frac{N * i * d}{D * 100}$$

where:

N = Nominal amount of the Notes.

i = Rate of interest as defined in the Final Terms.

d = Days accrued as defined in the Final Terms.

D = Day Count Basis.

"**Day Count Basis**" means, in respect of the calculation of an amount of interest in accordance with this Condition:

"**Actual / Actual (ISDA)**", the actual number of days in the Earning Period of Interest divided by 365 (or, if any portion of the Earning Period of Interest falls in a leap year, the sum of (i) the actual number of days in that portion of the Earning Period of Interest falling in a leap year divided by 366 and (ii) the actual

number of days in that portion of the Earning Period of Interest falling in a non-leap year divided by 365).

4.3 Non interest-bearing instruments: Zero Coupon Notes

Zero Coupon Notes shall be issued at a discount as described in the relevant Final Terms. The Final Terms may indicate that any Maturity Redemption Amount, as defined in Condition 5 below, is not paid when due, interest shall accrue in the overdue amount at a rate per annum equal to the Amortisation Yield, defined in or determined in accordance with the provisions of the Final Terms, until the date on which, upon due presentation or surrender of the Note (if required) the relevant payment is made or if earlier, the seventh day after the date on which the Fiscal Agent has received the required funds to make such payment and notice is given to the holders of the Notes in accordance with Condition 13. The amount of any such interest shall be calculated in accordance with the terms described in Condition 4.

5. Redemption

Notes issued under the Programme shall be redeemed free of expenses for the holders of beneficial interests in Global Notes at its maturity redemption amount (the "**Maturity Redemption Amount**") which shall be the 100% of its principal amount on the maturity date specified in the Final Terms.

Should the maturity date not fall on a Relevant Banking Day, the settlement date for the redemption price will be that of the following Relevant Banking Day and should not entitle to further interest or other payment in respect of such delay.

For the purposes of these Terms and Conditions, "**Relevant Banking Day**" means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System, or any successor thereto, is operating credit or transfer instructions in respect of payments in Euro.

Under no event shall the Issuer nor any holder of beneficial interests in Global Notes be entitled to redeem any Notes issued under the Programme on an earlier date than the maturity date specified in the Final Terms.

6. Events of Default

Upon happening of either the following events in respect of any Global Notes issued under the Programme, holders of beneficial interests in Global Notes directly accept the credit risk of the Issuer and thus accept the loss of the nominal amount of such Note together with accrued and unpaid interests (if any):

(i) *Non-payment*: the Issuer fails to pay any amount of principal and/or interest in respect of the Notes of the relevant issue within 30 days of the due date for payment thereof; or

(ii) *Breach of other obligations*: the Issuer defaults in the performance or observance of any material obligations under or in respect of the Notes of the relevant issue and such default remains unremedied for 60 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Fiscal Agent by the Holder of any such Note; or

(iii) *Bankruptcy or payment suspension of the Issuer*.

7. Exchange of the Notes

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event.

For the purposes of these Terms and Conditions, "**Exchange Event**" means that in the case of Notes registered in the name of a common depository (or its nominee) for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs.

8. Taxation

Noteholders should request appropriate advice with their tax advisors to evaluate their specific circumstances and the tax effects of their investment.

8.1 Taxation on savings

As defined under Law 11/2005 of June 13, on the application of the Agreement between the Principality of Andorra and the European Union on the establishment of equivalent measures to those provided by the Directive 2003/48/EC on taxation of savings income in the form of interest payments, residents in a member state of the European Union, that are beneficial owners of interests are subject to a withholding in Andorra. This withholding can be avoided if the beneficial owner is a company, or if tax certificate from the country of residence is provided.

At the date of this Base Prospectus, only individuals are withheld according to the said Law. However, the European Union is analyzing the possibility to amend the European Directive and to introduce a withholding applicable to companies.

8.2 Taxation on the income of Non Residents

Income obtained by non-resident individuals and companies in Andorra as interest (as defined by Law 11/2005) that are not subject to the Directive 2003/48/EC, are exempt under the terms and requirements of the Andorran Law 94/2010, of December 29, on the Non-Residents Income Tax.

8.3 Taxation on the income of the companies

Pursuant to article 9 of the Corporate Income Tax ("**CIT**") Law, applicable since January 1, 2012, the taxable base of CIT includes all income obtained by the company, that is not exempt from taxation. Income obtained from the Notes is not considered exempt from taxation, which implies that income arising from the Notes is taxable at the rate of 10 per cent. Said income can be reduced on the amount of the expenses related to the holding of the Notes.

8.4 Taxation on the income of individuals.

At the date of this Base Prospectus there is no taxation applicable to individuals with tax residency in Andorra.

Nevertheless, on August 2013, a bill of the Personal Income Tax was introduced in the Parliament, with the intention of being approved before the end of 2014.

Pursuant to the abovementioned bill, income arising from the Notes would qualify as capital investment. However, article 5 of the bill, sets of that the income arising from Andorran debt is exempt. Nevertheless, such article may change during the parliamentary process depending on the amendments introduced and passed.

9. Payments

General provisions applicable to payments of principal and interest

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or the Common Depository as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or the Common Depository, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

For this purposes, the record date, that is, the date and time at which positions shall be struck to note which parties are entitled to receive payments in respect of the Notes, will be the close of the Relevant Banking Day (in the International Central Securities Depository, or "**ICSD**") prior to the due date for such payment.

Payments of amounts due (whether principal, interest or otherwise) in respect of beneficial interests in Global Notes will be made in Euros by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

The payments of the Global Note will take place in the following moments:

- Subscription of the Notes: Every Agent will send to Euroclear its subscription order with the number of Notes and total amount of the Notes, to be subscribed on the settlement date ("**Settlement Date**") against payment of the nominal amount indicated. On the Settlement Date every Agent will pay to

Euroclear, through its account with such institution, the nominal amount of its subscription against reception of the Notes subscribed.

Once all payments of the different Agents are received, Euroclear will credit with same value date the total amount on the special account held by the Paying Agent in the books of Euroclear to register all funds transactions concerning the Notes.

Once the account of the Paying Agent has been credited with the total amount of the Notes, this total amount will be credited with the same value date, to the account of Issuer in the books of the Paying Agent.

- Payment of interests: In every payment date of interests the Paying Agent will debit the account of the Issuer in its books for the amount of interests accrued during the period and credit such amount in the account of the Paying Agent with Euroclear.

With the same value date, the Paying Agent will instruct Euroclear to debit his account and credit every Noteholder for the amount of interests accrued by his position of Notes.

- Redemption of the Notes: At the relevant Redemption Date, the Paying Agent will debit the account of the Issuer in his books for the Maturity Redemption Amount and interests accrued during the period and credit such amount in the account of the Paying Agent with Euroclear.

With the same value date, the Paying Agent will instruct Euroclear to debit its account and credit every holder of the Notes for the Maturity Redemption Amount and interests accrued during the period.

- Payment Date: If the date of payment of any amount is not a Relevant Banking Day, the holder shall not be entitled to payment until the next following Relevant Banking Day and should not entitle to further interest or other payment in respect of such delay.

10. Prescription

Claims against the Issuer for payment of principal and interest in respect of beneficial interests in Global Notes will be prescribed in accordance with the applicable Andorran law.

11. The Paying Agent and the Registrar

The Issuer has entered into an Agency Arrangement with BancSabadell d'Andorra, S.A. in relation with the issue of the Notes, to provide the following services:

- Act as Paying Agent in all payments related to the Notes, as specified in Condition 9.
- Hold in his books the special account of the Issuer to materialize all economic transactions related with the Issue.
- Maintain the communication with the Common Depository, in order to guarantee that all subscription orders, payments of cash and deliveries of Notes are made correctly and in due course.
- Act as Registrar maintaining detailed information of the subscription of the Notes.

12. Meetings of Noteholders and Modifications

(a) Meetings

Meetings of the holders of the Notes may be convened to consider any matter affecting their interests, including the sanctioning by an extraordinary resolution ("**Extraordinary Resolution**") of a modification of the terms and conditions of the Notes and the appointment or dismissal of the common representative (the "**Common Representative**") and are governed by the provisions of the current section of the Programme.

Such meetings may be convened by the Issuer (i) at its own initiative, (ii) at the written request of the Common Representative (if any) or, if no Common Representative has been appointed or an appointed Common Representative fails to request a meeting, at the written request of the Paying Agent and (iii) at the written request of the Noteholders holding not less than 20 per cent of the principal amount of the Notes for the time being outstanding. For that purpose, the Issuer will publish a call notice in the Official Gazette of the Principality of Andorra ("*Butlletí Oficial del Principat d'Andorra*") thirty calendar days before the date of the meeting. The call notice will include, at least, the following information: place of the meeting and the date of the first and second call

(being understood that between the date of the first and second call it must elapse, at least, a term of fifteen calendar days), the meeting agenda, the means to prove the Noteholders right to attend the meeting as well as the procedure to delegate the vote.

The quorum required for a meeting convened to pass a resolution other than an Extraordinary Resolution will be any person or persons holding or representing Notes then outstanding regardless of the principal amount thereof. The quorum required for a meeting convened to pass an Extraordinary Resolution will be at first call any person or persons holding or representing at least two thirds of the principal amount of the Notes for the time being outstanding or, at second call, any person or persons holding or representing any of the Notes then outstanding, regardless of the principal amount thereof.

The number of votes required to pass a resolution other than an Extraordinary Resolution is the majority of the votes cast at the relevant meeting. The majority required to pass an Extraordinary Resolution is at first call at least 50 per cent of the principal amount of the Notes then outstanding or, at second call, two-third of the votes cast at the relevant meeting. Any Extraordinary Resolution shall only be approved with the consent of the Issuer.

Resolutions passed at any meeting of the Noteholders will be binding on all the Noteholders, whether or not they are present at the meeting or have voted against the approved resolutions.

(b) Dismissal and substitution of the Common Representative

The Noteholders may dismiss and substitute the Common Representative (if any) by means of an Extraordinary Resolution passed for such purpose.

(c) Notification

Any modification, abrogation, waiver or authorisation in accordance with this Condition 12 shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

(d) Matters required to be approved by Extraordinary Resolution.

An Extraordinary Resolution will be required to effect any of the following:

- (i) to change any date fixed for payment of principal or interest in respect of the Notes, reduction of the amount of principal or interest due on any date in respect of the Notes or variation of the method for calculating the amount of any payment in respect of the Notes on redemption or maturity;
- (ii) to approve any amendment to the definition of "Extraordinary Resolution"; and
- (iii) to waive or authorise any breach or proposed breach of any of these Conditions.

(e) Discretionary Matters

Except for those matters required to be approved by Extraordinary Resolution, the Paying Agent, the Common Representative (if any) and the Issuer may agree, without the consent of the Noteholders, to:

- (i) any modification of the Notes which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable Law (as per Condition 15 below).

The Issuer will publish the details of any modification made pursuant to this Condition within ten Relevant Banking Days of the modification becoming legally effective.

13. Notices

Notices to holders of beneficial interests in Global Notes will be published in the Official Gazette of the Principality of Andorra ("*Butlletí Oficial del Principat d'Andorra*").

So long as the Notes are represented by a Global Certificate held by Common Depository on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (the "**Alternative Clearing System**"), notices will also be sent to Euroclear, Clearstream, Luxembourg or, as the case may be, the Alternative

Clearing System. In this case, any such notices shall be deemed to have been given on the third day after the day on which said notice was given to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

With respect to Notes admitted to listing and trading on a regulated or unregulated market, notices must also be published according to the rules and regulations of said market.

14. Further Issues

The Issuer may from time to time, without the consent of the holders of beneficial interests in Global Notes, create and issue further Notes, bonds or debentures having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Notes of any particular issue under the Programme.

15. Governing Law and Jurisdiction

Governing Law

The Global Notes and any obligations arising out of or in connection with them are governed by Andorran law.

Jurisdiction

The Andorran Courts shall have exclusive jurisdiction.