C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

MACROECONOMIC RISKS AND COVID-19 CONSEQUENCES

The COVID-19 pandemic is adversely affecting the Group

The COVID-19 (coronavirus) pandemic has affected, and is expected to continue to adversely affect, the world economy and economic activity and conditions in the countries in which the Group operates, leading many of them to economic recession. Among other challenges, these countries are experiencing widespread increases in unemployment levels and falls in production, while public debt has increased significantly due to support and spending measures implemented by government authorities. In addition, there has been an increase in debt defaults by both companies and individuals, volatility in the financial markets, volatility in exchange rates and falls in the value of assets and investments, all of which have adversely affected the Group's results in 2020 and are expected to continue affecting the Group's results in the future.

Furthermore, the Group has been and may be affected by the measures or recommendations adopted by regulatory authorities in the banking sector, including but not limited to, the recent reductions in reference interest rates, the relaxation of prudential requirements, the suspension of dividend payments, the adoption of moratorium measures for bank customers (such as those included in Royal Decree Law 11/2020 in Spain, as well as in the CECA-AEB agreement to which BBVA has adhered and which, among other things, allows loan debtors to extend maturities and defer interest payments) and guarantee by public entities of certain provisions of credit, especially to companies and self-employed individuals, as well as changes in the financial asset purchase programs. As of December 31, 2020, the majority of the amounts that had been deferred pursuant to the mandatory COVID-19 moratoria will be due by the end of the first half of 2021, a period during which economic conditions will likely continue to be challenging.

Since the outbreak of COVID-19, the Group has experienced a decline in its activity. For example, the granting of new loans to individuals has significantly decreased since the beginning of the state of emergency or periods of confinement decreed in certain countries in which the Group operates. In addition, the Group faces various risks, such as an increased risk of deterioration in the value of its assets (including financial instruments valued at fair value, which may suffer significant fluctuations) and of the securities held for liquidity reasons, a possible significant increase in non-performing loans and risk-weighted assets and a negative impact on the Group's cost of financing and on its access to financing (especially in an environment where credit ratings are affected). As of December 31, 2020, an estimated approximately 9% of the Group's exposure at default (defined as the amount of risk exposure upon default by counterparties, considering the Group's loans and advances at amortized cost) related to borrowers in certain industries facing particularly challenging conditions as a result of the COVID 19 pandemic, specifically leisure, real estate developers, non-food retailers, upstream and oilfield services and air and marine transportation.

In addition, in several of the countries in which the Group operates, including Spain, the Group temporarily closed a significant number of its offices and reduced the hours of working with the public, and the teams that provide central services have had to work remotely. While these measures were progressively reversed in most regions, additional restrictions on mobility could be adopted that affect the Group's operations. The COVID-19 pandemic could also adversely affect the business and operations of third parties that provide critical services to the Group and, in particular, the greater demand and/or reduced availability of certain resources could in some cases make it more difficult for the Group to maintain the required service levels. Furthermore, the increase in remote working has increased the risks related to cybersecurity, as the use of non-corporate networks has increased.

The COVID-19 pandemic has had an adverse effect on the Group's results for the year ended December 31, 2020 as well as on the Group's capital base as of December 31, 2020. For information on the impact of the COVID-19 pandemic on the Group, see "*Item 5. Operating and Financial Review and Prospects—Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—The COVID-19 Pandemic*" and Notes 1.5 and 7.2 to our Consolidated Financial Statements.

The COVID-19 pandemic has also exacerbated, and is likely to continue to exacerbate, other risks disclosed in this section, including but not limited to risks associated with the credit quality of the Group’s borrowers and counterparties or collateral, any withdrawal of ECB funding (of which the Group has made and continues to make significant use), the Group’s exposure to sovereign debt and rating downgrades, the Group’s ability to comply with its regulatory requirements, including MREL (as defined herein) and other capital requirements, and the deterioration of economic conditions or changes in the institutional environment.

The final magnitude of the impact of the COVID-19 pandemic on the Group’s business, financial condition and results of operations, which is expected to be significant, will depend on future and uncertain events, including the intensity and persistence over time of the consequences arising from the COVID-19 pandemic in the different geographies in which the Group operates.

A deterioration in economic conditions or the institutional environment in the countries where the Group operates could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group is sensitive to the deterioration of economic conditions or the alteration of the institutional environment of the countries in which it operates, and especially Spain, Mexico, the United States and Turkey, which respectively represented 55.1%, 15.0%, 12.8% and 8.1% of the Group's assets as of December 31, 2020 (52.3%, 15.6%, 12.7% and 9.2% as of December 31, 2019, respectively). Additionally, the Group is exposed to sovereign debt, particularly sovereign debt related to these geographies. Please see “*Item 5. Operating and Financial Review and Prospects—Operating Results—Operating Environment*” for summarized information on some of the challenges that these countries are currently facing and that, therefore, could significantly affect the Group.

Currently, the world economy is facing several exceptional challenges. In particular, the crisis derived from the COVID-19 pandemic has abruptly and significantly deteriorated the economic conditions of the countries in which the Group operates, leading many of them to an economic recession in 2020. Furthermore, this crisis could lead to a deglobalization of the world economy, produce an increase in protectionism or barriers to immigration, fuel the trade war between the United States and China and result in a general withdrawal of international trade in goods and services, as well as having other effects of long duration that transcend the pandemic itself. Added to this is the uncertainty regarding the United Kingdom’s (the “UK”) exit from the EU (“Brexit”). The long-term effects of Brexit will depend on the relationship between the UK and the EU after its complete exit from the European Single Market, which took place last December 31, 2020. Furthermore, in a scenario as uncertain as the current one, emerging economies (to which the Group is significantly exposed, particularly in the case of Mexico and Turkey) could be particularly vulnerable to a trade war or if there were changes in the financial risk appetite. Likewise, the possible triggering of a disorderly deleveraging process in China would pose a significant risk to these economies.

Thus, the Group faces, among others, the following general risks to the economic and institutional environment in which it operates: a deterioration in economic activity in the countries in which it operates, which could lead to further economic recession in some or all of those countries; more intense deflationary pressures or even deflation; variations in exchange rates; a very low interest rate environment, or even a long period of negative interest rates in some regions where the Group operates; an unfavorable evolution of the real estate market, to which the Group remains significantly exposed; very low oil prices; changes in the institutional environment in the countries in which the Group operates that could lead to sudden and sharp falls in GDP and/or regulatory changes; a growing public deficit that could lead to downgrades in sovereign debt credit ratings and even a possible default or restructuring of such debt; and episodes of volatility in markets, such as those currently being experienced, which could lead the Group to register significant losses.

BUSINESS RISKS

The Group’s businesses are subject to inherent risks concerning borrower and counterparty credit quality, which have affected and are expected to continue to affect the recoverability and value of assets on the Group’s balance sheet

The total maximum credit risk exposure of the Group as of December 31, 2020 was €749,524 million (€809,786 million and €763,082 million as of December 31, 2019 and 2018, respectively). The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant effect on the Group’s earnings. Adverse changes in the credit quality of the Group’s borrowers and counterparties or collateral, or in their behavior or businesses, may reduce the value of the Group’s assets, and materially increase the Group’s write-downs and loss allowances. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer, corporate or government spending, changes in the rating of individual contractual counterparties, their debt levels and the environment in which they operate, increased unemployment, reduced asset values, increased retail or corporate insolvency levels, reduced corporate profits, changes (and the timing, quantum and pace of these changes) in interest rates, counterparty challenges to the interpretation or validity of contractual arrangements or provisions and legal and regulatory developments.

Non-performing or impaired customer loans have been adversely affecting, and are expected to continue to adversely affect, the Group's results given the increasing economic uncertainty. As of December 31, 2020, the Group had a 4.0% NPL ratio (as defined in the Glossary to our Consolidated Financial Statements) compared to 3.8% and 3.9% as of December 31, 2019 and 2018, respectively. Prior to the COVID-19 pandemic, NPL ratios progressively improved due in part to the low interest rates, which improved clients' ability to pay. However, NPLs are expected to significantly increase once payment moratoria schemes adopted by governments are lifted due to the effects of the COVID-19 pandemic.

In addition, it is possible that the current scenario of economic deterioration results in a decrease in the prices of real estate assets in Spain and other countries (in particular, Mexico, Turkey and the United States, given the Group’s exposure to these markets).

As of December 31, 2020, the Group's exposure to the construction and real estate sectors (excluding the mortgage portfolio) in Spain was equivalent to €10,024 million, of which €2,565 million corresponded to loans for construction and development activities in Spain (representing 1.6% of the Group's loans and advances to customers in Spain (excluding the public sector) and 0.3% of the Group's consolidated assets). The Group continues to be exposed to the real estate market, mainly in Spain, due to the fact that many of its loans are secured by real estate assets, due to the significant volume of real estate assets that it maintains on its balance sheet, and due to its shareholding in real estate companies such as Metrovacesa, S.A. and Divarian Propiedad, S.A (“**Divarian**”). The total real estate exposure (excluding the mortgage portfolio), including developer credit, foreclosed assets and other assets, reflected a coverage ratio of 53% in Spain as of December 31, 2020. A fall in the prices of real estate assets in Spain (or in other countries where the Group has significant real estate exposure such as Mexico) would reduce the value of the shareholdings referred to above, as well as the value of any real estate securing loans granted by the Group and, therefore, in the event of default, the amount of the “expected losses” related to such loans would increase. In addition, it could also have a significant adverse effect on the default rates of the Group's residential mortgage portfolio, the balance of which, as of December 31, 2020, was €103,923 million at a global level (€110,534 million and €111,526 million as of December 31, 2019 and 2018, respectively).

The magnitude, timing and pace of any increase in default rates will be key for the Group. Furthermore, it is possible that the Group has incorrectly assessed the creditworthiness or willingness to pay of its borrowers and counterparties, that it has underestimated the credit risks and potential losses inherent in its credit exposure and that it has made insufficient provisions for such risks in a timely manner. These processes, which have a crucial impact on the Group's results and financial condition, require difficult, subjective and complex calculations, including forecasts of the impact that macroeconomic conditions could have on these borrowers and counterparties. In particular, the processes followed by the Group to estimate losses derived from its exposure to credit risk may prove to be inadequate or insufficient in the current environment of high economic uncertainty, which could affect the adequacy of the provisions for insolvencies provided by the Group. An increase in non-performing or low-quality loans could significantly and adversely affect the Group's business, financial condition and results of operations.

The Group’s business is particularly vulnerable to interest rates

The Group’s results of operations are substantially dependent upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond the Group’s control, including fiscal and monetary policies of governments and central banks, regulation of the financial sector in the markets in which it operates, domestic and international economic and political conditions and other factors. In this sense, the COVID-19 pandemic has triggered a process of cuts in reference interest rates, which, moreover, will likely take time to be raised and, if raised, interest rates will likely increase at a slower rate than previously foreseen. It is possible that changes in market interest rates, which could be negative in some cases, and the ongoing benchmark reform affect the Group’s interest-earning assets differently from the Group’s interest-bearing liabilities. This, in turn, may lead to a reduction in the Group's net interest margin, which could have a significant adverse effect on its results. Moreover, the ongoing benchmark reform exposes the Group to other significant risks, including legal and operational risks.

Furthermore, if interest rates were to increase in some or all of our markets, this could reduce the demand for credit and the Group's ability to generate credit for its clients, as well as contribute to an increase in the default rate.

As a result of the above, the evolution of interest rates could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group is exposed to risks related to the continued existence of certain reference rates and the transition to alternative reference rates

In recent years, international regulators have been driving a transition from the use of interbank offer rates ("**IBORs**"), including EURIBOR, LIBOR and EONIA, to alternative risk free rates ("**RFRs**"). This has resulted in regulatory reform and changes to existing IBORs, with further changes anticipated. These reforms and changes may cause an IBOR to perform differently than it has done in the past or to be discontinued. For example, in 2017, the U.K. Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021, and EONIA modified its methodology on October 2, 2019 and will likely be discontinued as from January 2022. In November 2019, the determination methodology for EURIBOR was changed to a new hybrid methodology using transaction-based data and other sources of data.

Uncertainty as to the nature and extent of such reforms and changes, and how they might affect financial instruments, may adversely affect the valuation or trading of a broad array of financial instruments that use IBORs, including any EURIBOR, EONIA or LIBOR-based securities, loans, deposits and derivatives that are issued by the Group or otherwise included in the Group's financial assets and liabilities. Such uncertainty may also affect the availability and cost of hedging instruments and borrowings. The Group is particularly exposed to EURIBOR-based financial instruments.

It is not possible to predict the timing or full effect of the transition to RFRs. As a result of such transition, the Group will be required to adapt or amend documentation for new and the majority of existing financial instruments, and may be subject to disputes (including with customers of the Group) related thereto, either of which could have an adverse effect on the Group's results of operations. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments. Such transition could also result in pricing risks arising from how changes to reference rates could impact pricing mechanisms in some instruments, and could have an adverse effect on the value of, return on and trading market for such financial instruments and on the Group's profitability. In addition, the transition to RFRs will require important operational changes to the Group's systems and infrastructure as all systems will need to account for the changes in the reference rates.

Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces increasing competition

The markets in which the Group operates are highly competitive and it is expected that this trend will continue in the coming years with the increasing entry of non-bank competitors (some of which have large client portfolios and strong brand recognition) and the emergence of new business models, as indicated by the Financial Stability Board's report on FinTech and market structure in financial services. Although the Group is making efforts to anticipate these changes, betting on its digital transformation, its competitive position is affected by the regulatory asymmetry that benefits non-bank operators. For example, banking groups are subject to prudential regulations that have implications for most of their businesses, including those in which they compete with non-bank operators that are only subject to regulations specific to the activity they develop or that benefit from loopholes in the regulatory framework. Furthermore, when banking groups carry out financial activities through the use of new technologies, they are generally subject to additional internal governance rules that place such groups at a competitive disadvantage.

Moreover, the widespread adoption of new technologies, including cryptocurrencies and payment systems, could require substantial investment to modify or adapt existing products and services as the Group continues to increase its mobile and internet banking capabilities. Likewise, the increasing use of these new technologies and mobile banking platforms could have an adverse impact on the Group's investments in facilities, equipment and employees of the branch network. A faster pace of transformation towards mobile and online banking models could require changes in the Group's commercial banking strategy, including the closure or sale of some branches and the restructuring of others, and reductions in employees. These changes could result in significant expenses as the Group reconfigures and transforms its commercial network. Failure to effectively implement such changes efficiently and on a timely basis could have a material adverse impact on the Group's competitive position or otherwise have a material adverse effect on the Group's business, financial condition or results of operations.

The Group faces risks related to its acquisitions and divestitures

The Group has both acquired and sold various companies and businesses over the past few years. As of the date of this Annual Report, the closing of the sale of BBVA USA remains subject to obtaining the relevant regulatory authorizations. Other recent transactions include the sale of BBVA Paraguay, BBVA Chile and the Cerberus Transaction (as defined herein). For additional information, see "*Item 4. Information on the Company—History and Development of the Company—Capital Divestitures*".

The Group may not complete any ongoing or future transactions in a timely manner, on a cost-effective basis or at all and, if completed, they may not obtain the expected results. In addition, if completed, the Group's results of operations could be adversely affected by divestiture or acquisition-related charges and contingencies. The Group may be subject to litigation in connection with, or as a result of, divestitures or acquisitions, including claims from terminated employees, customers or third parties. In the case of an acquisition, the Group may be liable for potential or existing litigation and claims related to an acquired business, including because either the Group is not indemnified for such claims or the indemnification is insufficient. Further, in the case of a divestiture, the Group may be required to indemnify the buyer in respect of similar or other matters, including claims against the divested entity or business.

In the case of an acquisition, even though the Group reviews the companies it plans to acquire, it is often not possible for these reviews to be complete in all respects and there may be risks associated with unforeseen events or liabilities relating to the acquired assets or businesses that may not have been revealed or properly assessed during the due diligence processes, resulting in the Group assuming unforeseen liabilities or an acquisition not performing as expected. In addition, acquisitions are inherently risky because of the difficulties of integrating people, operations and technologies that may arise. There can be no assurance that any of the businesses the Group acquires can be successfully integrated or that they will perform well once integrated. Acquisitions may also lead to potential write-downs that adversely affect the Group's results of operations.

Any of the foregoing may cause the Group to incur significant unexpected expenses, may divert significant resources and management attention from our other business concerns, or may otherwise have a material adverse impact on the Group's business, financial condition and results of operations.

The Group faces risks derived from its international geographic diversification and its significant presence in emerging countries

The Group is made up of commercial banks, insurance companies and other financial services companies in various countries and its performance as a global business depends on its ability to manage its different businesses under various economic, social and political conditions, facing different normative and regulatory requirements in many of the jurisdictions in which it operates (including, among others, different supervisory regimes and different tax and legal regimes related to the repatriation of funds or the nationalization or expropriation of assets).

In addition, the Group's international operations may expose it to risks and challenges to which its local competitors may not be exposed, such as currency risk, the difficulty of managing or supervising a local entity from abroad, political risks (which could affect only foreign investors) or limitations on the distribution of dividends, thus worsening its position compared to that of local competitors.

There can be no guarantee that the Group will be successful in developing and implementing policies and strategies in all of the countries in which it operates, some of which have experienced significant economic, political and social volatility in recent decades. In particular, the Group has significant operations in several emerging countries, such as Mexico and Turkey, and is therefore vulnerable to the deterioration of these economies. Emerging markets are generally affected by the conditions of other commercially or financially related markets and by the evolution of global financial markets in general (they may be affected, for example, by the evolution of interest rates in the United States and the exchange rate of the U.S. dollar), as well as, in some cases, by fluctuations in the prices of commodities. The perception that the risks associated with investing in emerging economies have increased, in general, or in emerging markets where the Group operates, in particular, could reduce capital flows to those economies and adversely affect such economies, and therefore the Group. Moreover, emerging countries are more prone to experience significant changes in inflation and foreign exchange rates, which may have a material impact on the Group’s results of operations, assets (including RWAs (as defined herein)) and liabilities.

The Group's operations in emerging countries are also exposed to heightened political risks, such as changes in governmental policies, expropriation, nationalization, interest rate limits, exchange controls, government restrictions on dividends and adverse tax policies. For example, the repatriation of dividends from BBVA’s Venezuelan and Argentinean subsidiaries is subject to certain restrictions and there is no assurance that further restrictions will not be imposed.

If the Group failed to adopt effective and timely policies and strategies in response to the risks and challenges it faces in each of the regions where it operates, particularly in emerging countries, the Group’s business, financial condition and results of operations could be materially and adversely affected.

Since the Group’s loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on its financial condition

The Group has historically carried out its lending activity mainly in Spain, which continues to be one of its primary business areas, such that as of December 31, 2020, total risk in financial assets in Spain (calculated as set forth in item (c) of Appendix IX (Additional information on risk concentration) of our Consolidated Financial Statements) amounted to €236,016 million, equivalent to 42% of the Group’s total risk in financial assets. The COVID-19 pandemic has had a significant impact on the Spanish economy and the sovereign fiscal position. Spanish GDP is estimated to have contracted around 11.0% in 2020, as the pandemic and the measures adopted to slow its spread brought about a sharp reduction in economic activity in the first half of the year, which was among the most severe within the Eurozone. The sharp decline in economic activity and measures adopted to support the economy have given rise to concerns about public debt sustainability in the medium and long term. In addition, while increases in unemployment have been limited by the implementation of short-time work schemes (ERTEs), as these measures are withdrawn in 2021, unemployment is expected to rise. Further, while economic recovery is expected to be boosted by the implementation of EU-level initiatives, in particular the financial support linked to the Next Generation EU (NGEU) plan, there are risks as to the capacity of the Spanish economy to absorb the EU funds and translate the support to productive investment. In addition, the Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main export market for Spanish goods and services. The Group’s gross exposure of loans and advances to customers in Spain totaled €195,983 million as of December 31, 2020, representing 61% of the total amount of loans and advances to customers included on the Group’s consolidated balance sheet. Our Spanish business includes extensive operations in Catalonia, which represented 16% of the Group’s assets in Spain as of December 31, 2020 (18% as of December 31, 2019). While social and political tensions have generally declined since 2017, if such tensions were to increase, this could lead to scenarios of uncertainty, volatility in capital markets and a deterioration of economic and financing conditions in Spain.

Given the relevance of the Group’s loan portfolio in Spain, any adverse change affecting economic conditions in Spain could have a material adverse effect on our business, financial condition and results of operations.

FINANCIAL RISKS

The Group has a continuous demand for liquidity to finance its activities and the withdrawal of deposits or other sources of liquidity could significantly affect it

Traditionally, one of the Group's main sources of financing has been savings accounts and demand deposits. As of December 31, 2020, the balance of customer deposits represented 70% of the Group's total financial liabilities at amortized cost. However, the volume of wholesale and retail deposits can fluctuate significantly, including as a result of factors beyond the Group's control, such as general economic conditions, changes in economic policy or administrative decisions that diminish their attractiveness as savings instruments (for example, as a consequence of changes in taxation, coverage by guarantee funds for deposits or expropriations) or competition from other savings or investment instruments (including deposits from other banks).

Likewise, changes in interest rates and credit spreads may significantly affect the cost of the Group’s short and long-term wholesale financing. Changes in credit spreads are driven by market factors and are also influenced by the market’s perception of the Group's solvency. As of December 31, 2020, debt securities issued by the Group represented 12.6% of the total financial liabilities at amortized cost of the Group.

In addition, the Group has made and continues to make significant use of public sources of liquidity, such as the European Central Bank's (ECB) extraordinary measures taken in response to the financial crisis since 2008 or those taken in connection with the crisis caused by the COVID-19 pandemic. The ECB announced in December 2020 the new conditions of Targeted Long Term Refinancing Operations (TLTRO) III, increasing the maximum amount that BBVA may receive from €35,000 million to €38,500 million and extending the enhanced conditions in terms of cost one additional year until June 2022. As of December 31, 2020, €35,032 million had been borrowed by BBVA (€7,000 million were drawn down as of each of December 2019 and March 2020, and €21,000 million as of June 2020). BBVA plans to take up an additional €3,500 million in March 2021 to reach its full allotment. However, the conditions of this or other programs could be revised or these programs could be cancelled.

In the event of a withdrawal of deposits or other sources of liquidity, especially if it is sudden or unexpected, the Group may not be able to finance its financial obligations or meet the minimum liquidity requirements that apply to it, and may be forced to incur higher financial costs, liquidate assets and take additional measures to reduce leverage. Furthermore, the Group could be subject to the adoption of early intervention measures or, ultimately, to the adoption of a resolution measure by the Relevant Spanish Resolution Authority (see “*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Principal Markets—Spain—Recovery and Resolution of Credit Institutions and Investment Firms*”). Any of the above could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group and some of its subsidiaries depend on their credit ratings and sovereign credit ratings

Rating agencies periodically review the Group's debt credit ratings. Any reduction, effective or anticipated, in any such ratings of the Group, whether below investment grade or otherwise, could limit or impair the Group's access to capital markets and other possible sources of liquidity and increase the Group’s financing cost, and entail the breach or early termination of certain contracts or give rise to additional obligations under those contracts, such as the need to grant additional guarantees. The Group estimates that, if at December 31, 2020 rating agencies had downgraded Banco Bilbao Vizcaya Argentaria, S.A.’s long-term senior debt rating by one notch, it would have had to provide additional guarantees/collateral amounting to €36.3 million under its derivative and other financial contracts. A hypothetical two-notch downgrade would have involved an outlay of €66.8 million in additional guarantees/collateral. Furthermore, if the Group were required to cancel its derivative contracts with some of its counterparties and were unable to replace them, its market risk would worsen. Likewise, a reduction in the credit rating could affect the Group's ability to sell or market some of its products or to participate in certain transactions, and could lead to the loss of customer deposits and make third parties less willing to carry out commercial transactions with the Group (especially those that require a minimum credit rating), having a significant adverse impact on the Group's business, financial condition and results of operations.

Furthermore, the Group's credit ratings could be affected by variations in sovereign credit ratings, particularly the rating of Spanish sovereign debt. The Group holds a significant portfolio of debt issued by the Kingdom of Spain, by the Spanish autonomous communities and by other Spanish issuers. As of December 31, 2020, the Group's exposure to the Kingdom of Spain's public debt portfolio was €46,401 million, representing 6% of the consolidated total assets of the Group. Any decrease in the credit rating of the Kingdom of Spain could adversely affect the valuation of the respective debt portfolios held by the Group and lead to a reduction in the Group's credit ratings. Additionally, counterparties to many of the credit agreements signed with the Group could also be affected by a decrease in the credit rating of the Kingdom of Spain, which could limit their ability to attract additional resources or otherwise affect their ability to pay their outstanding obligations to the Group.

As a consequence of the COVID-19 pandemic, some rating agencies have reviewed the Group's credit ratings or trends. Specifically, on June 22, 2020 Fitch announced the modification of BBVA’s senior preferred debt long-term rating to A- with stable outlook from A with Rating Watch Negative. On April 1, 2020, DBRS confirmed BBVA’s long-term rating of A (High) and maintained the outlook as stable. On April 29, 2020 S&P confirmed BBVA's long-term rating of A- and maintained its negative outlook. There may be more ratings actions and changes in BBVA’s credit ratings in the future as a result of the crisis caused by the COVID-19 pandemic, any of which could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group's ability to pay dividends depends, in part, on the receipt of dividends from its subsidiaries

Some of the Group’s operations are conducted through BBVA’s subsidiaries. As a result, BBVA’s results (and its ability to pay dividends) depend in part on the ability of its subsidiaries to generate earnings and to pay dividends to BBVA. Due, in part, to the Group's decision to follow a 'Multiple Point of Entry' strategy, in accordance with the framework for the resolution of financial entities designed by the Financial Stability Board (FSB), the Group’s subsidiaries are self-sufficient and each subsidiary is responsible for managing its own capital and liquidity. This means that the payment of dividends, distributions and advances by the Group’s subsidiaries to BBVA depends not only on the results of those subsidiaries, but also on the context of their operations and liquidity needs, and may be further limited by legal, regulatory and contractual restrictions. For example, in response to the crisis caused by the COVID-19 pandemic, certain restrictions were adopted that affect the distribution and/or repatriation of dividends of some of the Group's subsidiaries. There is no assurance that these restrictions will not remain in effect or, where lifted, reinstated, or that similar or new restrictions will not be imposed in the future. Furthermore, the Group's right, as a shareholder, to participate in the distribution of assets resulting from the eventual liquidation or any reorganization of its subsidiaries will be effectively subordinated to the rights of the creditors of those subsidiaries, including their commercial creditors.

In addition, the Group (including the Bank) must comply with certain capital requirements, where non-compliance could lead to the imposition of restrictions or prohibitions on making any: (i) distributions relating to common equity tier (“CET1”) capital; (ii) payments related to variable remuneration or discretionary pension benefits; and (iii) distributions linked to additional tier 1 (“**AT1**”) instruments (collectively, “**discretionary payments**”). Likewise, the ability of the Bank and its subsidiaries to pay dividends is conditioned by the recommendations and requirements of their respective supervisors, such as those made in response to the COVID-19 pandemic. In this regard, on April 30, 2020, the Bank announced that it had agreed to modify, for the financial year 2020, the Group's shareholder remuneration policy, opting not to pay any amount as a dividend corresponding to the financial year 2020 until the uncertainties generated by the COVID-19 pandemic dissipate and, in any case, not before the close of the 2020 fiscal year. While, on January 29, 2021, in line with the latest recommendation of the ECB, the Bank announced its intention to distribute 0.059 euros per share in respect of 2020 profit and to reinstate during 2021 its dividend policy announced in 2017 once any recommendation is repealed and there are no additional restrictions or limitations, no assurance can be given that further supervisory restrictions or recommendations will not restrict our or our subsidiaries’ ability to distribute dividends in the future (see *“Item 8. Financial Information—Consolidated Statements and Other Financial Information—Dividends*”).

Any dividends of BBVA or any of its subsidiaries may be subject to further regulatory restrictions or recommendations, or current restrictions or recommendations could be in place for a longer or indefinite period.

The Group’s earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by asset impairment

Regulatory, business, economic or political changes and other factors could lead to asset impairment. In recent years, severe market events such as the past sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures. Doubts regarding the asset quality of European banks has also affected their evolution in the market in recent years.

Several ongoing factors could depress the valuation of our assets or otherwise lead to the impairment of such assets (including goodwill and deferred tax assets). This includes the COVID-19 crisis, Brexit, the surge of populist trends in several European countries, increased trade tensions and potential changes in U.S. economic policies implemented by the new U.S. administration, any of which could increase global financial volatility and lead to the reallocation of assets. In addition, uncertainty about China’s growth expectations and its policymaking capability to address certain severe challenges has contributed to the deterioration of the valuation of global assets and further increased volatility in the global financial markets.

In particular, the final impact of the COVID-19 crisis on the valuation of the Group’s assets is still unknown. Since the outbreak of the crisis in the first quarter of 2020, public support measures have been introduced in the countries where the Group operates, most of which have been in the form of public guarantees on new loans to corporates and SMEs and moratoria and payment holidays on certain household loans. Once these measures come to an end, it is possible that the Group will need to record significant loan-loss provisions as a result of the deterioration in the credit quality of our clients, especially SMEs. Any such provisions could have a material adverse effect on the Group’s business, financial condition and results of operations

The Group has a substantial amount of commitments with personnel considered wholly unfunded due to the absence of qualifying plan assets

The Group’s commitments with personnel which are considered to be wholly unfunded are recognized under the heading “Provisions—Provisions for pensions and similar obligations” in its consolidated balance sheets included in the Consolidated Financial Statements. See Note 24 to the Consolidated Financial Statements.

The Group faces liquidity risk in connection with its ability to make payments on its unfunded commitments with personnel, which it seeks to mitigate, with respect to post-employment benefits, by maintaining insurance contracts which were contracted with insurance companies owned by the Group. The insurance companies have recorded in their balance sheets specific assets (fixed interest deposit and bonds) assigned to the funding of these commitments. The insurance companies also manage derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. The Group seeks to mitigate liquidity risk with respect to early retirements and post-employment welfare benefits through oversight by the Assets and Liabilities Committee (“**ALCO**”) of the Group. The Group’s ALCO manages a specific asset portfolio to mitigate the liquidity risk resulting from the payments of these commitments. These assets are government and covered bonds which are issued at fixed interest rates with maturities matching the aforementioned commitments. The Group’s ALCO also manages derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. Should BBVA fail to adequately manage liquidity risk and interest rate risk either as described above or otherwise, it could have a material adverse effect on the Group’s business, financial condition and results of operations.

LEGAL RISKS

The Group is party to a number of legal and regulatory actions and proceedings

The financial sector faces an environment of increasing regulatory and litigation pressure. The Group is party to government procedures and investigations, such as those carried out by the antitrust authorities which, among other things, have in the past and could in the future result in sanctions, as well as lead to claims by customers and others. The various Group entities are also frequently party to individual or collective judicial proceedings (including class actions) resulting from their activity and operations, as well as arbitration proceedings. For example, in April 2017, the Mexican Federal Economic Competition Commission (Comisión Federal de Competencia Económica) launched an antitrust investigation relating to alleged monopolistic practices of certain financial institutions, including BBVA’s subsidiary BBVA Bancomer, S.A. (“**BBVA Mexico**”) in connection with transactions in Mexican government bonds. The Mexican Banking and Securities Exchange Commission (Comisión Nacional Bancaria y de Valores) also initiated a separate investigation regarding this matter. These investigations resulted in certain fines, insignificant in amount, being initially imposed, certain of which BBVA Mexico has challenged. In March 2018, BBVA Mexico and certain other affiliates of the Group were named as defendants in a putative class action lawsuit filed in the United States District Court for the Southern District of New York, alleging that the defendant banks and their named subsidiaries engaged in collusion with respect to the purchase and sale of Mexican government bonds. In December 2019, following a decision from the judge assigned to hear the proceedings, plaintiffs withdrew their claims against BBVA Mexico’s affiliates. In November 2020, the judge granted the remaining defendants’ motion to dismiss for lack of personal, which the plaintiffs may appeal. More generally, in recent years, regulators have increased their supervisory focus on consumer protection and corporate behavior, which has resulted in a larger number of regulatory actions.

In Spain and in other jurisdictions where the Group operates, legal and regulatory actions and proceedings against financial institutions, prompted in part by certain recent national and supranational rulings in favor of consumers (with regards to matters such as credit cards and mortgage loans), have increased significantly in recent years and this trend could continue in the future. The legal and regulatory actions and proceedings faced by other financial institutions in relation to these and other matters, especially if such actions or proceedings result in favorable resolutions for the consumer, could also adversely affect the Group.

All of the above may result in a significant increase in operating and compliance costs and/or a reduction in revenues, and it is possible that an adverse outcome in any proceedings (depending on the amount thereof, the penalties imposed or the resulting procedural or management costs for the Group) could materially and adversely affect the Group, including by damaging its reputation.

It is difficult to predict the outcome of legal and regulatory actions and proceedings, both those to which the Group is currently exposed and those that may arise in the future, including actions and proceedings relating to former Group subsidiaries or in respect of which the Group may have indemnification obligations. Any of such outcomes could be significantly adverse to the Group. In addition, a decision in any matter, whether against the Group or against another credit entity facing similar claims as those faced by the Group, could give rise to other claims against the Group. In addition, these actions and proceedings draw resources away from the Group and may require significant attention on the part of the Group's management and employees.

As of December 31, 2020, the Group had €612 million in provisions for the proceedings it is facing (which are included in the line item "Provisions for taxes and other legal contingencies" in the consolidated balance sheet), of which €574 million corresponded to legal contingencies and €38 million corresponded to tax related contingencies. However, the uncertainty arising from these proceedings (including those for which no provisions have been made, either because it is not possible to estimate any such provisions or for other reasons) makes it impossible to guarantee that the possible losses arising from such proceedings will not exceed, where applicable, the amounts that the Group currently has provisioned and, therefore, could affect the Group's consolidated results in a given period.

As a result of the above, legal and regulatory actions and proceedings currently faced by the Group or to which it may become subject in the future or which may otherwise affect the Group, whether individually or in the aggregate, if resolved in whole or in part adversely to the Group's interests, could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Spanish judicial authorities are carrying out a criminal investigation relating to possible bribery, revelation of secrets and corruption by the Bank

Spanish judicial authorities are investigating the activities of Centro Exclusivo de Negocios y Transacciones, S.L. ("Cenyt"). Such investigation includes the provision of services by Cenyt to the Bank. On July 29, 2019, the Bank was named as an investigated party (investigado) in a criminal judicial investigation (Preliminary Proceeding No. 96/2017 – Piece No. 9, Central Investigating Court No. 6 of the National High Court) for alleged facts which could constitute bribery, revelation of secrets and corruption. On February 3, 2020, the Bank was notified by the Central Investigating Court No. 6 of the National High Court of the order lifting the secrecy of the proceedings. Certain current and former officers and employees of the Group, as well as former directors, have also been named as investigated parties in connection with this investigation. The Bank has been and continues to be proactively collaborating with the Spanish judicial authorities, including sharing with the courts information obtained in the internal investigation hired by the entity in 2019 to contribute to the clarification of the facts. As at the date of this Annual Report, no formal accusation against the Bank has been made.

This criminal judicial proceeding is in the pre-trial phase. Therefore, it is not possible at this time to predict the scope or duration of such proceeding or any related proceeding or its or their possible outcomes or implications for the Group, including any fines, damages or harm to the Group's reputation caused thereby.

REGULATORY, TAX AND REPORTING RISKS

The financial services sector is one of the most regulated in the world. The Group is subject to a broad regulatory and supervisory framework, which has increased significantly in the last decade. Regulatory activity in recent years has affected multiple areas, including changes in accounting standards; strict regulation of capital, liquidity and remuneration; bank charges and taxes on financial transactions; regulations affecting mortgages, banking products and consumers and users; recovery and resolution measures; stress tests; prevention of money laundering and terrorist financing; market abuse; conduct in the financial markets; anti-corruption; and requirements as to the periodic publication of information. Governments, regulatory authorities and other institutions continually make proposals to strengthen the resistance of financial institutions to future crises.

Furthermore, the international nature of the Group's operations means that the Group is subject to a wide and complex range of local and international regulations in these matters, sometimes with overlapping scopes and areas regulated. This complexity, which can be exacerbated by differences and changes in the interpretation or application of these standards by local authorities, makes compliance risk management difficult, requiring highly sophisticated monitoring, qualified personnel and general training of employees.

Any change in the Group's business that is necessary to comply with any particular regulations at any time, especially in Spain, Mexico, Turkey or, pending completion of the sale of BBVA USA, the United States, could lead to a considerable loss of income, limit the Group's ability to identify business opportunities, affect the valuation of its assets, force the Group to increase its prices and, therefore, reduce the demand for its products, impose additional costs on the Group or otherwise adversely affect its business, financial condition and results of operations.

The Group is subject to a broad regulatory and supervisory framework, including resolution regulations, which could have a significant adverse effect on its business, financial condition and results of operations

The Group is subject to a comprehensive regulatory and supervisory framework the complexity and scope of which has increased significantly since the previous financial crisis and which could further increase as a result of the crisis caused by the COVID-19 pandemic. In particular, the banking sector is subject to continuous scrutiny at the political and supervisory levels, and it is foreseeable that in the future there will continue to be political involvement in regulatory and supervisory processes, as well as in the governance of the main financial entities. For this reason, the laws, regulations and policies to which the Group is subject, as well as their interpretation and application, may change at any time. In addition, supervisors and regulators have significant discretion in carrying out their duties, which gives rise to uncertainty regarding the interpretation and implementation of the regulatory framework. Moreover, regulatory fragmentation and the implementation by some countries of more flexible or stricter rules or regulations could also adversely affect the Group's ability to compete with financial institutions that may or may not have to comply with any such rules or regulations, as applicable.

Regulatory changes, adopted or proposed, as well as their interpretation or application, have increased and may continue to substantially increase the Group's operating expenses and adversely affect its business model. For example, the imposition of prudential capital standards has limited and could further limit the ability of subsidiaries to distribute capital to the Group, while liquidity standards may require the Group to hold a higher proportion of financial instruments with higher liquidity and lower performance, which can adversely affect its net interest margin. In addition, the Group's regulatory and supervisory authorities may require the Group to increase its loan loss allowances or asset impairments, which could have an adverse effect on its financial condition. It is also possible that governments and regulators impose additional ad hoc regulations or requirements in response to the crisis caused by the COVID-19 pandemic, including the imposition of requirements on credit institutions to provide financing to various entities such as, for example, the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the "**FROB**") or the Single Resolution Board ("**SRB**").

Any legislative or regulatory measure and any necessary change in the Group's business operations as a consequence of such measure, as well as any failure to comply with it, could result in a significant loss of income, represent a limitation on the ability of the Group to take advantage of business opportunities and offer certain products and services, affect the value of the Group's assets, force the Group to increase prices (which could reduce the demand for its products), impose additional compliance costs or result in other possible negative effects for the Group.

One of the most significant regulatory changes resulting from the prior financial crisis was the introduction of resolution regulations (which are described in "*Item 4. Information on the Company—Business Overview—Supervision and Regulation*"). In the event that the Relevant Spanish Resolution Authority (as defined herein) considers that the Group is in a situation where conditions for early intervention or resolution are met, it may adopt the measures provided for in the applicable regulations, including without prior notice. Such determination, or the mere possibility that such determination could be made, could materially and adversely affect the Group's business, financial condition and results of operations, as well as the market price and behavior of certain securities issued by the Group (or their terms, in the event of an exercise of the Spanish Bail-in-Power (as defined herein)).

Increasingly onerous capital and liquidity requirements may have a material adverse effect on the Group's business, financial condition and results of operations

As described in *"Item 4. Information on the Company—Business Overview—Supervision and Regulation*", in its capacity as a Spanish credit institution, the Group is subject to compliance with a "Pillar 1" solvency requirement, a "Pillar 2" solvency requirement and a "combined buffer requirement" at both the individual and consolidated levels. As a result of the latest Supervisory Review and Evaluation Process ("**SREP**") carried out by the ECB, and in accordance with the measures implemented by the ECB on March 12, 2020, by means of which banks may partially use AT1 and Tier 2 capital instruments in order to fulfil the "Pillar 2" requirement, BBVA must maintain, at a consolidated level, a CET1 ratio of 8.59% and a total capital ratio of 12.75%. In addition, BBVA must maintain, on an individual level, a CET1 ratio of 7.84% and a total capital ratio of 12.01% As of December 31, 2020, the Group's phased-in total capital ratio was 16.46% on a consolidated basis and 20.68% on an individual basis, and its CET1 phased-in capital ratio was 12.15% on a consolidated basis and 15.14% on an individual basis.

Additionally, as described in *"Item 4. Information on the Company—Business Overview—Supervision and Regulation*", Banco Bilbao Vizcaya Argentaria, S.A., as a Spanish credit institution, must maintain a minimum level of own funds and eligible liabilities (the "**MREL requirement**") in relation to total liabilities and own funds. On November 19, 2019, the Bank announced that it had received notification from the Bank of Spain of its MREL, as determined by the SRB. The Bank's MREL was set at 15.16% of the total liabilities and own funds of the Bank's resolution group at a sub-consolidated level from January 1, 2021. Likewise, of this MREL, 8.01% of the total liabilities and own funds must be met with subordinated instruments, once the allowance established in the requirement itself has been applied. This MREL is equivalent to 28.50% of the Risk Weighted Assets ("**RWAs**") of the Bank's resolution group, while the subordination requirement included in the MREL is equivalent to 15.05% of the RWAs of the Group's resolution group, once the corresponding allowance has been applied.

The Bank estimates that, following the entry into force of SRM Regulation II (as defined herein) (which, among other matters, establishes the MREL in terms of RWAs and sets forth new transitional periods and deadlines, and which we interpret would be applicable to our MREL requirement), the current structure of shareholders' funds and admissible liabilities enables the Bank's compliance with its MREL requirement. However, both the total capital and the MREL requirements are subject to interpretation and change and, therefore, no assurance can be given that our interpretation is the appropriate one or that the Bank and/or the Group will not be subject to more stringent requirements at any future time. Likewise, no assurance can be given that the Bank and/or the Group will be able to fulfil whatever future requirements may be imposed, even if such requirements were to be equal or lower. There can also be no assurances as to the ability of the Bank and/or the Group to comply with any capital target announced to the market at any given time, which could be adversely perceived by investors and/or supervisors, who could interpret that a lack of capital-generating capacity exists or that the capital structure has deteriorated, either of which could adversely affect the market value or behavior of securities issued by the Bank and/or the Group (and, in particular, any eligible liabilities and any capital instruments) and, therefore, lead to the implementation of new recommendations or requirements regarding "Pillar 2" or (should the Relevant Spanish Resolution Authority interpret that obstacles may exist for the viability of the resolution of the Bank and /or the Group), MREL.

If the Bank or the Group failed to comply with its "combined buffer requirement" they would have to calculate the Maximum Distributable Amount ("**MDA**") and, until such calculation has been undertaken and reported to the Bank of Spain, the affected entity would not be able to make any discretionary payments. Once the MDA has been calculated and reported, such discretionary payments would be limited to the calculated MDA. Likewise, should the Bank or the Group not meet the applicable capital requirements, additional requirements of "Pillar 2" or, if applicable, MREL could be imposed. Likewise, in accordance with the EU Banking Reforms (as defined below), any failure by the Bank or the Group to comply with its respective "combined buffer requirement" when considered in addition to its MREL could result in the imposition of restrictions or prohibitions on discretionary payments. Additionally, failure to comply with the capital requirements may result in the implementation of early intervention measures or, ultimately, resolution measures by the resolution authorities.

Regulation (EU) 2019/876 of the European Parliament and of the Council, of May 20, 2019 (as amended, replaced or supplemented at any time, "**CRR II**") establishes a binding requirement for the leverage ratio effective from June 28, 2021 of 3% of Tier 1 capital (as of December 31, 2020, the phased-in leverage ratio of the Group was 6.68% and fully loaded it was 6.46%). Moreover, the EU Banking Reforms include a leverage ratio buffer for financial institutions of global systemic importance (**G-SIBs**) to be met with Tier 1 capital. Any failure to comply with this leverage ratio buffer may also result in the need to calculate and report the MDA, and restrictions on discretionary payments. Moreover, CRR II proposes new requirements that capital instruments must meet in order to be considered AT1 or Tier 2 instruments, including certain grandfathering measures until June 28, 2025. Once the grandfathering period in CRR II has elapsed, AT1 and/or Tier 2 instruments which do not comply with the new requirements at such date will no longer be considered as capital instruments. This could give rise to shortfalls in regulatory capital and, ultimately, could result in failure to comply with the applicable minimum regulatory capital requirements, with the aforementioned consequences.

Additionally, the implementation of the ECB expectations regarding prudential provisions for NPLs (published on May 15, 2018) and the ECB's current review of internal models being used by banks subject to its supervision for the calculation of their RWAs (TRIMs) could result, respectively, in the need to increase provisions for future NPLs and increases in the Group's capital needs.

Furthermore, the implementation of the Basel III reforms described in *"Item 4. Information on the Company—Business Overview—Supervision and Regulation"* could result in an increase of the Bank's and the Group's total RWAs and, therefore, could also result in a decrease of the Bank's and the Group's capital ratios. Likewise, the lack of uniformity in the implementation of the Basel III reforms across jurisdictions in terms of timing and applicable regulations could give rise to inequalities and competition distortions. Moreover, the lack of regulatory coordination, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect an entity with global operations such as the Group and could affect its profitability.

Additionally, should the Total Loss Absorbing Capacity (**TLAC**) requirements, as described in *"Item 4. Information on the Company—Business Overview—Supervision and Regulation"*, currently only imposed upon G-SIBs, be applicable upon non-G-SIBs entities or should the Group once again be classified as a G-SIB, additional minimum requirements similar to MREL could in the future be imposed upon the Group.

There can be no assurance that the above capital requirements or MREL will not adversely affect the Bank’s or its subsidiaries’ ability to make discretionary payments, or result in the cancellation of such payments (in whole or in part), or require the Bank or such subsidiaries to issue additional securities that qualify as eligible liabilities or regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Group’s business, financial condition and results of operations. Furthermore, an increase in capital requirements could adversely affect the return on equity and other of the Group’s financial results indicators. Moreover, the Bank’s or the Group’s failure to comply with their capital requirements and MREL could have a significant adverse effect on the Group’s business, financial condition and results of operations.

Lastly, the Group must also comply with liquidity and funding ratios. Several elements of the Liquidity Coverage Ratio (“**LCR**”**)** and net stable financing ratio (“**NSFR**”) (as such ratios are defined in Note 7.5 to our Consolidated Financial Statements), as introduced by national banking regulators and fulfilled by the Group, may require implementing changes in some of its commercial practices, which could expose the Group to additional expenses (including an increase in compliance expenses), affect the profitability of its activities or otherwise lead to a significant adverse effect over the Group’s business, financial condition or results of operations. As of December 31, 2020 and December 31, 2019, the Group's LCR was 149% and 129% respectively. The NSFR was 127% as of December 31, 2020 and 120% as of December 31, 2019. For further information, see Note 7.5 to our Consolidated Financial Statements.

The Group is exposed to tax risks that may adversely affect it

The size, geographic diversity and complexity of the Group and its commercial and financial relationships with both third parties and related parties result in the need to consider, evaluate and interpret a considerable number of tax laws and regulations, as well as any relevant interpretative materials, which in turn involve the use of estimates, the interpretation of indeterminate legal concepts and the determination of appropriate valuations in order to comply with the tax obligations of the Group. In particular, the preparation of the Group's tax returns and the process for establishing tax provisions involve the use of estimates and interpretations of tax laws and regulations, which are complex and subject to review by the tax authorities. Any error or discrepancy with tax authorities in any of the jurisdictions in which the Group operates may give rise to prolonged administrative or judicial proceedings that may have a material adverse effect on the Group’s results of operations.

In addition, governments in different jurisdictions are in the search for new funding sources, and they have recently focused on the financial sector. The Group's presence in various jurisdictions increases its exposure to regulatory and interpretative changes, which could, among other things, lead to (i) an increase in the types of tax to which the Group is subject, including in response to the demands of various political forces at the national and global level, (ii) changes in the calculation of tax bases and exemptions therefrom, such as the proposal in Spain to limit the exemption for dividends and capital gains from domestic and foreign subsidiaries to 95%, which would mean that 5% of the dividends and capital gains obtained by the Group companies in Spain would be subject to, and not exempt from, corporate tax, or (iii) the creation of new taxes, like the common financial transaction tax (“FTT”) in the proposed Tax Directive for the Financial Transactions Tax of the European Commission (which would tax the acquisitions of certain securities, including those issued by the Group) and the Spanish FTT which came into effect in Spain in January 2021, may have adverse effects on the business, financial condition and results of operations of the Group.

The Group is exposed to compliance risks

The Group, due to its role in the economy and the nature of its activities, is singularly exposed to certain compliance risks. In particular, the Group must comply with regulations regarding customer conduct, market conduct, the prevention of money laundering and the financing of terrorist activities, the protection of personal data, the restrictions established by national or international sanctions programs and anti-corruption laws (including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act of 2010), the violations of which could lead to very significant penalties. These anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Group’s business, the Group directly or indirectly, through third parties, deals with entities whose employees are considered to be government officials. The Group’s activities are also subject to complex customer protection and market integrity regulations.

Generally, these regulations require banking entities to, among other measures, use diligence measures to manage compliance risk. Sometimes, banking entities must apply reinforced due diligence measures because they understand that, due to the very nature of the activities they carry out (among others, private banking, money transfer and foreign currency exchange operations), they may present a higher risk of money laundering or terrorist financing.

Although the Group has adopted policies, procedures, systems and other measures to manage compliance risk, it is dependent on its employees and external suppliers for the implementation of these policies, procedures, systems and other measures, and it cannot guarantee that these are sufficient or that the employees (123,174 as of December 31, 2020) or other persons of the Group or its business partners, agents and/or other third parties with a business or professional relationship with BBVA do not circumvent or violate current regulations or BBVA’s ethics and compliance regulations, acts for which such persons or the Group could be held ultimately responsible and/or that could damage the Group's reputation. In particular, acts of misconduct by any employee, and particularly by senior management, could erode trust and confidence and damage the Group’s reputation among existing and potential clients and other stakeholders. Actual or alleged misconduct by Group entities in any number of activities or circumstances, including operations, employment-related offenses such as sexual harassment and discrimination, regulatory compliance, the use and protection of data and systems, and the satisfaction of client expectations, and actions taken by regulators or others in response to such misconduct, could lead to, among other things, sanctions, fines and reputational damage, any of which could have a material adverse effect on the Group’s business, financial condition and results of operations.

Furthermore, the Group may not be able to prevent third parties outside the Group from using the banking network in order to launder money or carry out illegal or inappropriate activities. Further, financial crimes continually evolve and emerging technologies, such as cryptocurrencies and blockchain, could limit the Group's ability to track the movement of funds. Additionally, in adverse economic conditions, it is possible that financial crime attempts will increase significantly.

If there is a breach of the applicable regulations or BBVA’s ethics and compliance regulations or if the competent authorities consider that the Group does not perform the necessary due diligence inherent to its activities, such authorities could impose limitations on the Group's activities, the revocation of its authorizations and licenses, and economic penalties, in addition to having significant consequences for the Group's reputation, which could have a significant adverse impact on the Group's business, financial condition and results of operations. Furthermore, the Group from time to time conducts investigations related to alleged violations of such regulations and BBVA’s ethics and compliance regulations, and any such investigation or any related procedure could be time consuming and costly, and its results difficult to predict.

Finally, in 2020 the COVID-19 outbreak has led in many countries to new specific regulations, mainly focused on consumer protection measures. The difficulties associated with the need to adapt the Group’s systems to these new regulations quickly along with the fact that the majority of BBVA’s employees have been working remotely could pose new compliance risks. Likewise, despite the existing controls in place, the increase in remote account opening driven by the pandemic could increase money laundering risks. Additionally, criminals are continuing to exploit the opportunities created by the pandemic across the globe and increased money laundering risks associated with counterfeiting of medical goods, investment fraud, cyber-crime scams and exploitation of economic stimulus measures put in place by governments. Increased strain on our communications surveillance frameworks could in turn raise our market conduct risk.

BBVA’s financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position

The preparation of financial statements in compliance with IFRS-IASB requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include the classification, measurement and impairment of financial assets, particularly where such assets do not have a readily available market price, the assumptions used to quantify certain provisions and for the actuarial calculation of post-employment benefit liabilities and commitments, the useful life and impairment losses of tangible and intangible assets, the valuation of goodwill and purchase price allocation of business combinations, the fair value of certain unlisted financial assets and liabilities, the recoverability of deferred tax assets and the exchange and inflation rates of Venezuela. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group beyond that anticipated or provided for, which could have an adverse effect on the Group’s business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

The further development of standards and interpretations under IFRS-IASB could also significantly affect the results of operations, financial condition and prospects of the Group.

OPERATIONAL RISKS

Attacks, failures or deficiencies in the Group's procedures, systems and security or those of third parties to which the Group is exposed could have a significant adverse impact on the Group's business, financial condition and results of operations, and could be detrimental for its reputation

The Group's activities depend to a large extent on its ability to process and report effectively and accurately on a high volume of highly complex transactions with numerous and diverse products and services (by their nature, generally ephemeral), in different currencies and subject to different regulatory regimes. Therefore, it relies on highly sophisticated information technology ("**IT**") systems for data transmission, processing and storage. However, IT systems are vulnerable to various problems, such as hardware and software malfunctions, computer viruses, hacking, and physical damage to IT centers. BBVA's exposure to these risks has increased significantly in recent years due to the Group's implementation of its ambitious digital strategy. According to data as of December 31, 2020, 63% of the Group's customers are digital and 59% of customers regularly use their mobile phones to interact with BBVA, and digital sales represent 63.6% of total sales. BBVA already has more than 500,000 customers registered exclusively through digital channels in Spain, of which more than 50% did so via mobile. These digital services, as well as other alternatives that BBVA offers users to become BBVA customers, have become even more important after the COVID-19 outbreak and the ensuing restrictions on mobility in the countries in which the Group operates. Currently, one in three new clients chooses digital channels to start their relationship with BBVA. Any attack, failure or deficiency in the Group's systems could, among other things, lead to the misappropriation of funds of the Group's clients or the Group itself and the unauthorized disclosure, destruction or use of confidential information, as well as preventing the normal operation of the Group, and impair its ability to provide services and carry out its internal management. In addition, any attack, failure or deficiency could result in the loss of customers and business opportunities, damage to computers and systems, violation of regulations regarding data protection and/or other regulations, exposure to litigation, fines, sanctions or interventions, loss of confidence in the Group's security measures, damage to its reputation, reimbursements and compensation, and additional regulatory compliance expenses and could have a significant adverse impact on the Group's business, financial condition and results of operations. Furthermore, it is possible that such attacks, failures or deficiencies will not be detected on time or ever. The Group is likely to be forced to spend significant additional resources to improve its security measures in the future. As cyber-attacks are becoming increasingly sophisticated and difficult to prevent, the Group may not be able to anticipate or prevent all possible vulnerabilities, nor to implement preventive measures that are effective or sufficient.

Customers and other third parties to which the Group is significantly exposed, including the Group's service providers (such as data processing companies to which the Group has outsourced certain services), face similar risks. Any attack, failure or deficiency that may affect such third parties could, among other things, adversely affect the Group's ability to carry out operations or provide services to its clients or result in the unauthorized disclosure, destruction or use of confidential information. Furthermore, the Group may not be aware of such attack, failure or deficiency in time, which could limit its ability to react. Moreover, as a result of the increasing consolidation, interdependence and complexity of financial institutions and technological systems, an attack, failure or deficiency that significantly degrades, eliminates or compromises the systems or data of one or more financial institutions could have a significant impact on its counterparts or other market participants, including the Group.