BBVA's business, financial condition and results of operations may be adversely affected if BBVA is not allowed to maintain certain deferred tax assets as regulatory capital.

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

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

Due to these differences and the impact of the requirements of CRD IV on DTAs, the Spanish regulator implemented certain amendments to the Spanish Law on Corporate Income Tax (Royal Decree Law 4/2004 of March 5, as amended) through RD-L 14/2013, which also provided for a transitional regime for DTAs generated before January 1, 2014. These amendments enable certain DTAs to be treated as a direct claim against the tax authorities if a Spanish bank is unable to reverse the relevant differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This will, therefore, allow a Spanish bank not to deduct such DTAs from its regulatory capital. The transitional regime provides for a period in which only a percentage (which increases yearly) of the applicable DTAs will have to be deducted. This transitional regime has also been included in Law 27/2014.

There can be no assurance that the tax amendments implemented by RD-L 14/2013 and Law 27/2014 will not be challenged by the European Commission, that the final interpretation of these amendments will not change and that Spanish banks will ultimately be allowed to maintain certain DTAs as regulatory capital. If this regulation is challenged, this may negatively affect BBVA's regulatory capital and therefore its ability to pay dividends or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have a material adverse effect on BBVA's business, financial condition and results of operations.

The full consolidation of Garanti in the consolidated financial statements of the Group may result in increased capital requirements.

On November 19, 2014, we entered into agreements for the acquisition from Doğuş Holding A.Ş. and Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk, respectively, of 62,538,000,000 shares of Türkiye Garanti Bankası A.Ş. ("**Garanti**") in the aggregate (see "Item 10. Additional Information—Material Contracts"). The acquisition is conditional on obtaining all necessary regulatory consents from the relevant Turkish, Spanish, European Union and, if applicable, other jurisdictions' regulatory authorities and is expected to be completed in 2015. Following completion of this acquisition, BBVA will fully consolidate Garanti in the consolidated financial statements of the Group. The consolidation of Garanti will result in a significant increase in BBVA's risk-weighted assets, reflecting the greater risk profile of Garanti's asset base, and it may result in an incremental increase in the capital requirements imposed on the Group by the Banking Regulation and Supervision Agency (BRSA) in Turkey and/or the ECB through the SSM.

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

On February 14, 2013 the European Commission published its proposal for a Council Directive implementing enhanced cooperation in the area of a financial transaction tax ("**FTT**"), which was intended to take effect on January 1, 2014 but negotiations are still ongoing. The proposed Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the recent crisis and creating a level playing field with other sectors from a taxation point of view. A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by January 1, 2016.

Royal Decree-Law 8/2014, of July 4, introduced a 0.03% tax on bank deposits in Spain. This tax is payable annually by Spanish banks. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where BBVA operates.

Furthermore, Royal Decree-Law 6/2013 of March 22, on protection for holders of certain savings and investment products and other financial measures, included a requirement for banks, including BBVA, to make an exceptional one-off contribution to the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*) in addition to the annual contribution to be made by member institutions, equal to €3.00 per each €1,000 of deposits held as of December 31, 2012. The purpose of such contribution was for the Deposit Guarantee Fund to be able to purchase at market prices the unlisted shares of certain Spanish financial institutions involved in restructuring or resolution processes under Law 9/2012 (none of which are part of the Group). There can be no assurance that additional funding requirements will not be imposed by the Spanish authorities for assisting in the restructuring of the Spanish banking sector.

In addition, BBVA may need to make contributions to the EU Single Resolution Fund and will have to pay supervisory fees to the SSM. See "—Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on BBVA's business, financial condition and results of operations."

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

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

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

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

The SSM is expected to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the largest European banks (including BBVA), on November 4, 2014. In preparation for this step, between November 2013 and October 2014 the ECB conducted, together with national supervisors, a comprehensive assessment of the largest banks, which together hold more than 80% of the Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures.

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM will result in the direct supervision of the largest financial institutions, among them BBVA, and indirect supervision of around 3,500 financial institutions. The new supervisor will be one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that will be part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, this new body will represent an extra cost for the financial institutions that will fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. Regulation (EU) No. 806/2014 of the European Parliament and the Council of the European Union (the "**SRM Regulation**"), which was passed on July 15, and took legal effect from January 1, 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The new Single Resolution Board started operating from January 1, 2015 but it will not fully assume its resolution powers until January 1, 2016. From that date onwards the Single Resolution Fund will also be in place, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8% bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as BBVA's main supervisory authority may have a material effect on BBVA's business, financial condition and results of operations. In particular, the BRRD and Directive 2014/49/EU on deposit guarantee schemes were published in the Official Journal of the EU on June 12, 2014. The BRRD was required to be implemented on or before January 1, 2015, although the bail-in tool will not apply until January 1, 2016, except where a bail-out is required during 2015. In this case, a minimum 8% bail-in of a bank's liabilities (including senior debt and uncovered deposits) will be required as a precondition for access to any direct recapitalization by the European Stability Mechanism ("**ESM**"), as agreed by the Eurozone members in December 2014.

The process for the implementation of the BRRD in Spain started on December 1, 2014, with the publication of the draft of the proposed law *(anteproyecto de ley*) on the restructuring and resolution of credit institutions and investment firms (the "**BRRD Draft Implementation Law**") for public consultation by the Spanish Ministry of Economy and Finance. Following such consultation and the submission of a revised BRRD Draft Implementation Law to the report of the State Council (Consejo de Estado), the Spanish government approved the submission of a new version of the BRRD Draft Implementation Law, now drafted as a bill of law (proyecto de ley), to the Spanish parliament on March 13, 2015.

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

BBVA cannot assure that regulatory developments related to the EU fiscal and banking union, and initiatives undertaken at a EU level, will not have a material adverse effect on BBVA's business, financial condition and results of operations.

The Group's anti-money laundering and anti-terrorism policies may be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing.

Group companies are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although the Group believes that its current policies and procedures are sufficient to comply with applicable rules and regulations, it cannot guarantee that its anti-money laundering and anti-terrorism financing policies and procedures will not be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations.

Local regulation may have a material effect on BBVA's business, financial condition, results of operations and cash flows.

BBVA's operations are subject to regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in the various regions where it operates. Regulations in certain jurisdictions where BBVA operates differ in a number of material respects from equivalent regulations in Spain. Changes in regulations may have a material effect on the Group's business and operations, particularly in Mexico, the United States, Venezuela, Argentina and Turkey.

The governments in certain regions where the Group operates, have exercised, and continue to exercise, significant influence over the local economy. Governmental actions, including changes in laws or regulations or in the interpretation of existing laws or regulations, concerning the economy and state-owned enterprises, or otherwise affecting the Group's activity, could have a significant effect on the private sector entities in general and on BBVA's subsidiaries and affiliates in particular. In addition, the Group's activities in emerging economies, such as Venezuela, are subject to a heightened risk of changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps, exchange controls, government restrictions on dividends and tax policies. These could have a material adverse effect on the Group's business, financial condition and results of operations.

Set forth below is additional information on certain recent regulatory developments in Mexico and the United States, the Group's most significant jurisdictions by assets outside Spain which are relevant to the Group.

Mexico

On January 9, 2014, certain financial reforms which had been proposed in May 2013, were adopted. Such measures address the following matters (i) the establishment of a new mandate for development banks, (ii) the promotion of competition to reduce interest rates, (iii) the creation of incentives for banks to give more credit and (iv) the strengthening of the banking system. The Group will have to adapt to the new requirements and to the new competition framework and it might not be successful in doing so.

In addition, according to the mandate of the Law for Transparent and Ordered Financial Services in place (last modified in 2010), the Mexican National Commission for the Protection and Defense of Financial Services Users (*Comisión Nacional para la Defensa de los Usuarios de los Servicios Financieros*) ("**Condusef**") has continued to request that banks submit several of their service contracts for revision by the Condusef (for example, contracts relating to credit cards and insurance), in order to check that they comply with the relevant transparency and clarity requirements. Condusef does not have systematic ways to evaluate and grade service contracts, and this reflects on a substantial variation in grades from one year to the next and no clear instructions for adequating such contracts. The Law Committee of the Banking Association (ABM) is coordinating the creation of a working group that is expected to propose improvements in the process. In addition, Condusef has asked banks to formulate new procedures so that beneficiaries of deposit accounts can collect the funds in the case of the death of the account owner. BBVA may have to incur compliance costs in connection with any new measures adopted by Condusef.

Furthermore, the Anti-Money Laundering Law (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) became effective in July 2013. The Law establishes more severe penalties for non-compliance and sets forth enhanced information requirements for some transactions.

United States

BBVA's operations may be affected by regulatory reforms in response to the financial crisis, including measures such as those concerning systemic financial institutions and the enactment in the United States in July 2010 of the Dodd-Frank Act. In July 2013, U.S. federal bank regulators issued final rules implementing many elements of the Basel III framework and other U.S. capital reforms. In December 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission and the U.S. Securities and Exchange Commission issued final rules to implement the Volcker Rule, as required by the Dodd-Frank Act. The Volcker Rule prohibits an insured depository institution, its affiliates and any company that controls an insured depository institution from engaging in proprietary trading and from investing in or sponsoring certain covered funds, such as hedge funds and private equity funds, in each case subject to certain limited exceptions. The final rules also impose significant compliance and reporting obligations.

In February 2014, the Federal Reserve approved a final rule to enhance its supervision and regulation of the U.S. operations of foreign banking organizations (“**FBOs**”) such as BBVA. Under this rule, FBOs with U.S. $50 billion or more in U.S. assets held outside of their U.S. branches and agencies (“**Large FBOs**”), such as BBVA, will be required to create a separately capitalized top-tier U.S. intermediate holding company (“**IHC**”) that will hold all of the Large FBO’s U.S. bank and nonbank subsidiaries, such as Compass Bank and Compass Bancshares. The IHC will be subject to U.S. risk-based and leverage capital, liquidity, risk management, stress testing and other enhanced prudential standards on a consolidated basis. Under the final rule, a Large FBO that is subject to the IHC requirement may request permission from the Federal Reserve to establish multiple IHCs or use an alternative organizational structure. The final rule also permits the Federal Reserve to apply the IHC requirement in a manner that takes into account the separate operations of multiple foreign banks that are owned by a single Large FBO. Although U.S. branches and agencies of Large FBOs will not be required to be held beneath an IHC, such branches and agencies will be subject to liquidity, and, in certain circumstances, asset maintenance requirements. Large FBOs generally will be required to form IHCs and comply with enhanced prudential standards beginning July 1, 2016, although an IHC’s compliance with applicable U.S. leverage ratio requirements is generally delayed until January 1, 2018, and certain enhanced prudential standards have applied to BBVA’s top-tier U.S. bank holding company, Compass Bancshares, since January 1, 2015. The rule does not constitute any significant additional burden for FBOs that already organized their main U.S. subsidiaries through bank holding company structures such as BBVA. Indeed, those FBOs would have anyway been subject to U.S. prudential standards. FBOs that have $50 billion or more in non-branch/agency U.S. assets as of June 30, 2014, such as BBVA, were required to submit an implementation plan by January 1, 2015 on how the FBO will comply with the intermediate holding company requirement. BBVA submitted its implementation plan in December 2014, in which it indicated its intention to designate Compass Bancshares as its IHC. The Federal Reserve has stated that it will issue, at a later date, final rules to implement certain other enhanced prudential standards under the Dodd-Frank Act for large bank holding companies and Large FBOs, including single counterparty credit limits and an early remediation framework.

In September 2014, the federal banking regulators adopted a final rule implementing in the United States the liquidity coverage ratio (“**LCR**”), the quantitative liquidity standards developed by the Basel Committee. The LCR was developed to ensure that covered banking organizations have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The rule introduces a version of the LCR applicable to certain large bank holding companies such as Compass Bancshares. This version differs in certain respects from the Basel Committee’s version of the LCR, including a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule beginning on January 1, 2015 and ending on January 1, 2017. The federal banking regulators have not yet proposed rules to implement in the United States the net stable funding ratio (“**NSFR**”), additional quantitative liquidity standards developed by the Basel Committee. The NSFR has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities. The Basel Committee contemplates that the NSFR, including any revisions, will be implemented by member countries, including the United States, as a minimum standard by January 1, 2018. Various elements of the LCR and the NSFR, if and when it is implemented by the U.S. banking regulators, may cause changes that affect the profitability of BBVA’s business activities and require that it changes certain of its business practices, and could expose BBVA to additional costs (including increased compliance costs). These changes may also cause BBVA to invest significant management attention and resources to make any necessary changes.

Liquidity and Financial Risks

BBVA has a continuous demand for liquidity to fund its business activities. BBVA may suffer during periods of market-wide or firm-specific liquidity constraints, and liquidity may not be available to BBVA even if its underlying business remains strong.

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short- and long-term wholesale funding markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be affected.

BBVA’s profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, such as the closure of financial markets and uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, the Group's ability to meet its financial obligations as they fall due or to fulfill its commitments to lend could be affected through limited access to liquidity (including government and central bank facilities). In such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. These factors may have a material adverse effect on the Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

In addition, corporate and institutional counterparties may seek to reduce aggregate credit exposures to BBVA (or to all banks), which could increase the Group's cost of funding and limit its access to liquidity. The funding structure employed by the Group may also prove to be inefficient, thus giving rise to a level of funding cost where the cumulative costs are not sustainable over the longer term. The funding needs of the Group may increase and such increases may be material to the Group's operating results, financial condition or prospects.

Historically, one of BBVA's principal sources of funds has been savings and demand deposits. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside BBVA's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. The recent introduction of a national tax on outstanding deposits could be negative for BBVA's activities in Spain. Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which BBVA operates, BBVA will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures.

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 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 provisions for impairment losses. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer and/or government spending, global economic slowdown, changes in the rating of individual counterparties, the debt levels of individual contractual counterparties and the economic environment they operate in, increased unemployment, reduced asset values, increased personal 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 and any external factors of a legislative or regulatory nature. In recent years, the global economic crisis has driven cyclically high bad debt charges.

Non-performing or low credit quality loans have in the past and can continue to negatively affect BBVA's results of operations. BBVA cannot assure that it will be able to effectively control the level of the impaired loans in its total loan portfolio. At present, default rates are partly cushioned by low rates of interest which have improved customer affordability, but the risk remains of increased default rates as interest rates start to rise. The timing quantum and pace of any rise is a key risk factor. All new lending is dependent on the Group's assessment of each customer's ability to pay, and there is an inherent risk that the Group has incorrectly assessed the credit quality or willingness of borrowers to pay, possibly as a result of incomplete or inaccurate disclosure by those borrowers or as a result of the inherent uncertainty that is involved in the exercise of constructing models to estimate the true risk of lending to counterparties. The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the Group's results and financial condition, requires difficult, subjective and complex judgments, including forecasts of how macro-economic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to adequately identify the relevant factors or that it will fail to estimate accurately the effect of these identified factors, which could have a material adverse effect on the Group’s business, financial condition or results of operations.

The Group’s business is particularly vulnerable to volatility in 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 sectors in the markets in which it operates, domestic and international economic and political conditions and other factors. Changes in market interest rates can affect the interest rates that the Group receives on its interest-earning assets differently to the rates that it pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income the Group receives, which could have a material adverse effect on its results of operations.

In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates. In addition, a rise in interest rates 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 credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse effect on the Group’s business, financial condition or 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 BBVA’s consolidated balance sheets included in the Consolidated Financial Statements. For more information please see Note 24 of our Consolidated Financial Statements.

The Group faces liquidity risk in connection with its ability to make payments on these unfunded amounts 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, cash flows and results of operations.

BBVA is dependent on its credit ratings and any reduction of its credit ratings could materially and adversely affect the Group’s business, financial condition and results of operations.

BBVA is rated by various credit rating agencies. BBVA’s credit ratings are an assessment by rating agencies of its ability to pay its obligations when due. Any actual or anticipated decline in BBVA’s credit ratings to below investment grade or otherwise may increase the cost of and decrease the Group’s ability to finance itself in the capital markets, secured funding markets (by affecting its ability to replace downgraded assets with better rated ones), interbank markets, through wholesale deposits or otherwise, harm its reputation, require it to replace funding lost due to the downgrade, which may include the loss of customer deposits, and make third parties less willing to transact business with the Group or otherwise materially adversely affect its business, financial condition and results of operations. Furthermore, any decline in BBVA's credit ratings to below investment grade or otherwise could breach certain agreements or trigger additional obligations under such agreements, such as a requirement to post additional collateral, which could materially adversely affect the Group's business, financial condition and results of operations.

Highly-indebted households and corporations could endanger the Group's asset quality and future revenues.

In recent years, households and businesses have reached a high level of indebtedness, particularly in Spain, which represents increased risk for the Spanish banking system. In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to upward movements in interest rates. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on the Group's loan portfolio and, as a result, on its financial condition and results of operations. Moreover, the increase in households' and businesses' indebtedness also limits their ability to incur additional debt, decreasing the number of new products the Group may otherwise be able to sell them and limiting the Group's ability to attract new customers satisfying its credit standards, which could have an adverse effect on the Group's ability to achieve its growth plans.

The Group depends in part upon dividends and other funds from subsidiaries.

Some of the Group's operations are conducted through its financial services subsidiaries. As a result, BBVA's ability to pay dividends, to the extent BBVA decides to do so, depends in part on the ability of the Group's subsidiaries to generate earnings and to pay dividends to BBVA. Payment of dividends, distributions and advances by the Group's subsidiaries will be contingent upon their earnings and business considerations and is or may be limited by legal, regulatory and contractual restrictions. For instance, the repatriation of dividends from the Group's Venezuelan and Argentinean subsidiaries have been subject to certain restrictions and there is no assurance that further restrictions will not be imposed. Additionally, BBVA's right to receive any assets of any of the Group's subsidiaries as an equity holder of such subsidiaries, upon their liquidation or reorganization, will be effectively subordinated to the claims of such subsidiaries' creditors, including trade creditors.

Business and Industry Risks

The Group faces increasing competition in its business lines.

The markets in which the Group operates are highly competitive and this trend will likely continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the Group must now compete.

The Group also faces competition from non-bank competitors, such as payment platforms, ecommerce businesses, department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies and public debt.

There can be no assurance that this competition will not adversely affect the Group's business, financial condition, cash flows and results of operations.

The Group faces risks related to its acquisitions and divestitures.

The Group's mergers and acquisitions activity involves divesting its interests in some businesses and strengthening other business areas through acquisitions. The Group may not complete these transactions in a timely manner, on a cost-effective basis or at all. Even though the Group reviews the companies it plans to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, the Group may assume unanticipated liabilities, or an acquisition may not perform as well as expected. In addition, transactions such as these 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 due to unforeseen business developments that may adversely affect the Group's results of operations.

The Group's results of operations could also be negatively affected by acquisition or divestiture-related charges, amortization of expenses related to intangibles and charges for impairment of long-term assets. The Group may be subject to litigation in connection with, or as a result of, acquisitions or divestitures, including claims from terminated employees, customers or third parties, and the Group may be liable for future or existing litigation and claims related to the acquired business or divestiture because either the Group is not indemnified for such claims or the indemnification is insufficient. These effects could cause the Group to incur significant expenses and could materially adversely affect its business, financial condition, cash flows and results of operations.

The Group is party to lawsuits, tax claims and other legal proceedings.

Due to the nature of the Group's business, BBVA and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in jurisdictions around the world, the financial outcome of which is unpredictable. An adverse outcome or settlement in these proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, cash flows, results of operations and reputation. In addition, responding to the demands of litigation may divert management's time and attention and financial resources. While the Group believes that it has provisioned such risks appropriately based on the opinions and advice of its legal advisors and in accordance with applicable accounting rules, it is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to the Group, could exceed the amount of provisions made for such risks. See "Item 8. Financial information—Consolidated Statements and Other Financial Information—Legal proceedings" and Note 23 to BBVA's Consolidated Financial Statements for additional information on the Group's legal, regulatory and arbitration proceedings.

The Group's ability to maintain its competitive position depends significantly on its international operations, which expose the Group to foreign exchange, political and other risks in the countries in which it operates, which could cause an adverse effect on its business, financial condition and results of operations.

The Group operates commercial banks and insurance and other financial services companies in various countries and its overall success as a global business depends upon its ability to succeed in differing economic, social and political conditions. The Group is particularly sensitive to developments in Mexico, the United States, Venezuela and Argentina, which represented 15%, 11%, 3% and 1% of the Group's assets in 2014, respectively. In addition, following completion of the acquisition of an additional 14.89% stake in Garanti (see "Item 10. Additional Information—Material Contracts"), we will also be significantly exposed to developments in Turkey.

The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. See "—Legal, Regulatory and Compliance Risks—Local regulation may have a material effect on BBVA's business, financial condition, results of operations and cash flows." These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalization or expropriation of assets. The Group's international operations may also expose it to risks and challenges which its local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, and political risk which may be particular to foreign investors, or the distribution of dividends.

In addition, the Group is more exposed to emerging economies than most of its European competitors. The Group's presence in locations such as the Latin American markets or Turkey requires it to respond to rapid changes in market conditions in these countries and exposes the Group to increased risks relating to emerging markets. See "—Macroeconomic Risks—The Group may be materially adversely affected by developments in the emerging markets economies where it operates." There can be no assurance that the Group will succeed in developing and implementing policies and strategies that are effective in each country in which it operates or that any of the foregoing factors will not have a material adverse effect on its business, financial condition and results of operations.

BBVA is party to a shareholders' agreement with Doğuş Holding A. Ş., among other shareholders, in connection with Garanti which may affect BBVA's ability to achieve the expected benefits from its interest in Garanti.

In 2011, BBVA entered into a shareholders' agreement with Doğuş Holding A.Ş., Doğuş Nakliyat ve Ticaret A.Ş. and Doğuş Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş. (the "**Doğuş Group**"), in connection with the acquisition of its initial 24.89% interest in Garanti (the "**current SHA**"). On November 19, 2014, BBVA and the Doğuş Group entered into an agreement that amends and restates the current SHA and which will come into force upon completion of BBVA's proposed acquisition of the additional 14.89% interest in Garanti (the "**amended and restated SHA**"). Under the current SHA, certain decisions affecting the day-to-day management of Garanti require the consent of both BBVA and the Doğuş Group. Accordingly, under the current SHA BBVA must cooperate with the Doğuş Group in order to manage Garanti and grow its business. While the amended and restated SHA allows BBVA to appoint the Chairman of Garanti's board of directors, the majority of its members and Garanti's CEO, it provides that certain reserved matters must be implemented or approved (either at a meeting of the shareholders or of the board of directors) only with the consent of each party. For example, for so long as the Doğuş Group owns shares representing over 9.95% of the share capital of Garanti, the disposal or discontinuance of, or material changes to, any line of business or business entity within the Garanti group that has a value in excess of 25% of the Garanti group's total net assets in one financial year, will require the Doğuş Group's consent. If BBVA and the Doğuş Group are unable to agree on such reserved matters, Garanti's business, financial condition and results of operations may be adversely affected and BBVA may fail to achieve the expected benefits from its interest in Garanti. In addition, due to BBVA's and Garanti's association with the Doğuş Group, which is one of the largest Turkish conglomerates and has business interests in the financial services, construction, tourism and automotive sectors, any financial reversal, negative publicity or other adverse circumstance relating to the Doğuş Group could adversely affect Garanti or BBVA.

Financial and Risk Reporting

Weaknesses or failures in the Group's internal processes, systems and security could materially adversely affect its results of operations, financial condition or prospects, and could result in reputational damage.

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out against Group companies, are present in the Group's businesses. These businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results, the reporting of such results and on the ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of the Group's systems could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure for the Group. Although the Group devotes significant resources to maintain and regularly update its processes and systems that are designed to protect the security of its systems, software, networks and other technology assets, there is no assurance that all of its security measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in its systems, processes or security could have a material adverse effect on its business, financial condition and results of operations.

The financial industry is increasingly dependent on information technology systems, which may fail, may not be adequate for the tasks at hand or may no longer be available.

Banks and their activities are increasingly dependent on highly sophisticated information technology ("**IT**") systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centers. IT systems need regular upgrading and banks, including BBVA, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there