buying rate” refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes.

Year ended December 31	Average (1)
2009	1.3955
2010	1.3216
2011	1.4002
2012	1.2908
2013	1.3303
2014 (through April, 25, 2014)	1.3728

(1) Calculated by using the average of the exchange rates on the last day of each month during the period.

Month ended	High	Low
September 30, 2013	1.3537	1.3120
October 31, 2013	1.3810	1.3490
November 30, 2013	1.3606	1.3357
December 31, 2013	1.3816	1.3552
January 31, 2014	1.3682	1.3500
February 28, 2014	1.3806	1.3507
March 31, 2014	1.3927	1.3731
April 30, 2014 (through April 25, 2014)	1.3898	1.3704

The noon buying rate for euro from the Federal Reserve Bank of New York, expressed in dollars per €1.00, on April 25, 2014, was $1.3838.

As of December 31, 2013, approximately 40% of our assets and approximately 40% of our liabilities were denominated in currencies other than euro. See Note 2.2.16 to our Consolidated Financial Statements.

For a discussion of our foreign currency exposure, please see “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Market Risk Management—Market Risk in Non-Trading Portfolio in 2013—Structural Risk Structural Currency Risk”.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Us and Our Business

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

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

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

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

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

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

Recent Spanish regulatory developments include (i) Royal Decree-Law 2/2012, of February 3 and Law 8/2012 of October 30, which increased coverage requirements to be met by December 31, 2012 for performing and non-performing real estate assets, (ii) Law 9/2012, of November 14 ("**Law 9/2012**") which established a new regime on restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of restructuring and resolution processes, which was based on the June 2012 draft of the proposed EU Recovery and Resolution Directive ("**RRD**"), and (iii) Royal Decree-Law 14/2013, of November 29 ("RD-L 14/2013") which partially incorporated Capital Requirements Directive IV ("**CRD IV**") into Spanish law. In addition, on February 5, 2014 a new Bank of Spain Circular 2/2014, of January 31, was published. By means of this new circular, the Bank of Spain has made certain regulatory determinations under the Capital Requirements Regulation (which is directly applicable in EU member states, without the need to be implemented by national laws) ("**CRR**") pursuant to the delegation contained in RD-L 14/2013 including, among other things, certain rules concerning the applicable transitional regime on capital requirements and the treatment of deductions and. establishes a 4.5% common equity tier 1 requirement and a 6% tier 1 capital requirement.

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

Capital requirements

Increasingly onerous capital requirements constitute one of the Bank's main regulatory concerns.

As a Spanish financial institution, Banco Bilbao Vizcaya Argentaria, S.A. is subject to CRD IV, through which the European Union has implemented the Basel III capital standards and which are in the process of being phased in until January 1, 2019. The CRR entered into force on January 1, 2014 and the CRD IV Directive has already been partially implemented in Spain as of January 1, 2014 by RD-L 14/2013. RD-L 14/2013 has repealed, with effect from January 1, 2014, any Spanish regulatory provisions that may be incompatible with CRR.

Despite the CRD IV/Basel III framework setting minimum transnational levels of regulatory capital and a measured phase-in, many national authorities have started a race to the top for capital by gold-plating both requirements and the associated implementation calendars.

For example, in the last three years the Bank of Spain and the European Banking Authority (the "**EBA**") have imposed new capital requirements in advance of the entering into force of CRD IV. These measures have included Bank of Spain Circular 3/2008 ("**Circular 3/2008**") of May 22, on the calculation and control of minimum capital requirements, which was amended by Bank of Spain Circular 4/2011 ("**Circular 4/2011**") and which implemented Capital Requirements Directive III in Spain. In addition, some of the requirements of Basel III were already implemented by the Spanish Government in 2011 with Royal Decree-Law 2/2011 ("**RD-L 2/2011**") of February 18 (as amended by Law 9/2012) which established a new minimum requirement in terms of capital on risk-weighted assets ("**Capital Principal**") and required such capital to be greater than 9% from January 1, 2013. RD-L 14/2013 repealed, with effect from January 1, 2014, Title I of Royal Decree-Law 2/2011, which imposed the minimum Capital Principal requirement with respect to credit institutions. Despite such repeal, the Bank of Spain has been given powers to prohibit or restrict, until December 31, 2014, any distributions of Tier 1 Capital by credit institutions (including the Bank) which would have been comprised in the minimum Capital Principal requirements stipulated in RD-L 2/2011, provided such distributions, in aggregate terms, imply not fulfilling by up to 20% of the minimum Capital Principal legally required as at December 31, 2013, the Capital Principal requirement on a temporary basis and any credit institution making any such distribution would further risk non-compliance with additional capital requirements that could be imposed by the Bank of Spain.

Furthermore, following an evaluation of the capital levels of 71 financial institutions throughout Europe (including the Bank) based on data available as of September 30, 2011, the EBA issued a recommendation on December 8, 2011 pursuant to which, on an exceptional and temporary basis, financial institutions based in the EU should reach a new minimum Core Tier 1 ratio (9%) by June 30, 2012. This recommendation has been replaced by the EBA recommendation of July 22, 2013 on the preservation of Core Tier 1 capital during the transition to CRD IV implementation. This new recommendation provides for the maintenance of a nominal floor of capital denominated in the relevant reporting currency of Core Tier 1 capital corresponding to the amount of capital needed as at June 30, 2012 to meet the requirements of the above recommendation of December 8, 2011. Competent authorities may waive this requirement for institutions which maintain a minimum of 7% of common equity Tier 1 capital under CRD IV rules applied after the transitional period.

Finally, in order to complete the implementation of CRD IV initiated by RD-L 14/2013, the Spanish Ministry of Economy and Competitiveness has prepared and recently published a draft of a new comprehensive law on the supervision and solvency of financial institutions.

Additionally, the Mexican government introduced the Basel III capital standards in 2012 and the Basel III transposition in the United States will be effective in 2015. This lack of uniformity may lead to an uneven playing field and to competition distortions. Moreover, regulatory fragmentation, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect a bank with global operations such as the Bank and could undermine its profitability.

At its meeting of January 12, 2014, the oversight body of the Basel Committee endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, starting on January 1, 2015. There will be a mandatory minimum capital requirement on January 1, 2018, with an initial minimum leverage ratio of 3% that can be raised after calibration.

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

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

In addition to introducing new capital requirements, CRD IV provides that the deferred tax assets ("**DTAs**") of a financial institution must be deducted from its regulatory capital (specifically from 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 greater impact of the requirements of CRD IV with respect to DTAs, the Spanish regulator implemented certain amendments to the Spanish Law on Corporate Income Tax (Royal Decree Law 4/2004 of March 5, as amended) through RD-L 14/2013. This provides for certain DTAs to be treated as a direct claim against the tax authorities if a Spanish bank is unable to reverse those temporary differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This amendment will allow a Spanish bank not to deduct such DTAs from its regulatory capital.

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

Contributions for assisting in the restructuring of the Spanish banking sector

Royal Decree-Law 6/2013 of March 22, on protection for holders of certain savings and investment products and other financial measures, included a requirement for banks, including the Bank, 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.

Steps taken towards achieving an EU fiscal and banking union

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union. While support for a banking union in Europe exists and significant advances have been made in terms of the development of a single-rule book through CRD IV, there is ongoing debate on the extent and pace of integration. On September 13, 2012, the European Parliament approved a proposal for the creation of the Single Supervisory Mechanism, so that 128 of the largest EU banks (including the Bank) will come under the ECB’s direct oversight from November 2014. Other issues include the representation and voting power of non-Eurozone countries, the accountability of the ECB to European institutions as part of the Single Supervision Mechanism, the final status of the EBA, the development of a new bank resolution regime and the creation of a common deposit-guarantee scheme. In particular, the RRD and the Deposit Guarantee Schemes Directive were submitted to the European Parliament in June 2013. An agreement on the RRD was reached in the February 2014 ECOFIN. The final approval of the RRD is expected by April-May 2014. The RRD is expected to enter into force in 2015, but the bail-in tool will only be operational from 2016. The final regulation on direct recapitalization of banks by the European Stability Mechanism (ESM) is still pending. European leaders have also supported the reinforcement of the fiscal union but continue negotiating on how to achieve it.

Prior to the ECB assuming the supervision of European banks (including the Bank), the ECB is conducting, with the help of national supervisors, external advisors, consultants and other appraisers, a comprehensive assessment consisting of three elements: (i) a supervisory risk assessment, which will assess the main risks on the balance sheet including liquidity, funding and leverage; (ii) an asset quality review, which will focus on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures which could affect the Group's business, financial condition and results of operations. It is expected that the results of this comprehensive agreement will be released at the end of 2014.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its future capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations.

In 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, and includes a prohibition of proprietary trading such as in the US Volcker Rule and a mechanism to require the separation of trading activities including market making such as in the UK Banking Reform.

Regulatory reforms initiated in the United States

The Bank's operations may also be affected by other 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 OCC, the FDIC, the CFTC and the SEC 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 $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 BBVA Compass. 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 will apply to BBVA's top-tier U.S. bank holding company, BBVA Compass, beginning January 1, 2015. 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. The rule does not constitute any significant additional burden for FBOs that already organized their main US subsidiaries through a BHC structure such as BBVA. Indeed, those FBOs would have anyway been subject to US prudential standards.

In addition, the Federal Reserve and other U.S. regulators issued for public comment in October 2013 a proposed rule that would introduce a quantitative liquidity coverage ratio requirement on certain large banks and bank holding companies. The proposed liquidity coverage ratio is broadly consistent with the Basel Committee's revised Basel III liquidity rules, but is more stringent in several important respects. The Federal Reserve has also stated that it intends, through future rulemakings, to apply the Basel III liquidity coverage ratio and net stable funding ratio to the U.S. operations of some or all large FBOs.

Although there remains uncertainty as to how regulatory implementation of these laws will occur, various elements of the new laws may cause changes that impact the profitability of the Bank’s business activities and require that it changes certain of its business practices, and could expose the Bank to additional costs (including increased compliance costs). These changes may also cause the Bank to invest significant management attention and resources to make any necessary changes.

Taxation of the financial sector

On February 14, 2013 the European Commission published its proposal for a Council Directive implementing a common financial transaction tax, 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. In Spain, legislation passed in March 2013 imposed extraordinary levies on deposits (see “—Contributions for assisting in the restructuring of the Spanish banking sector”) but the final terms of this tax are expected to be adopted in 2014, along with other tax reforms. It is expected that the Spanish Government will set a tax on outstanding deposits to be paid annually by banks, which will subsequently be distributed to regional authorities. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates. Any such additional levies and taxes could have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for the Group to fund its business on favorable terms or cause the Group to take other actions

Historically, one of the Group’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 the Group’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 expected introduction of national taxes on outstanding deposits could be negative for the market 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 the Group operates, 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. 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 earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions

Financial markets, among other matters, reflect the perception of risk, economic conditions and economic policies in their present and short to mid-term future outlooks. Especially in 2012, negative growth expectations and lack of confidence that policy changes would solve problems led to steep falls in asset values and a severe reduction in market liquidity. Additionally, in dislocated markets, hedging and other risk management strategies may not be as effective as they are in more normal market conditions due in part to the decreasing credit quality of hedge counterparties. Severe market events such as the 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 in recent years. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

The Group faces increasing competition in its business lines

The markets in which the Group operates are highly competitive and the Group believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the Group must now compete, some of which have recently received public capital from the European Stability Mechanism. Foreign competitors or funds may consider acquiring the institutions who have received such public capital in future auctions, such as occurred with respect to Novagalicia Banco, which was acquired by Banesco, a Venezuelan bank.

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 (as a result of the high yields which have recently been offered as a consequence of the sovereign debt crisis, there has been a crowding out effect in the financial markets).

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’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 its 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 than 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 impact 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 impact 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—Funds for Pensions and Similar Obligations” in its consolidated balance sheets included in the Consolidated Financial Statements. These amounts, which comprise “Post-employment benefits”, “Early retirements” and “Post-employment welfare benefits”, are considered wholly unfunded due to the absence of qualifying plan assets.

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 regarding 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 the Bank 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.

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We may face risks related to our acquisitions and divestitures

Our mergers and acquisitions activity involves divesting our interests in some businesses and strengthening other business areas through acquisitions. We may not complete these transactions in a timely manner, on a cost-effective basis or at all. Even though we review the companies we plan to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, we 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 we acquire 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 our results of operations.

Our 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. We 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 we may be liable for future or existing litigation and claims related to the acquired business or divestiture because either we are not indemnified for such claims or the indemnification is insufficient. These effects could cause us to incur significant expenses and could materially adversely affect our business, financial condition, cash flows and results of operations.

We are party to lawsuits, tax claims and other legal proceedings

Due to the nature of our business, we and our 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 we believe that we have provisioned such risks appropriately based on the opinions and advice of our 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 us, 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 25 to the Consolidated Financial Statements for additional information on our legal, regulatory and arbitration proceedings.

Risks Relating to Spain and Europe

Economic conditions in the European Union and Spain could have a material adverse effect on our business, financial condition and results of operations

The crisis in worldwide financial and credit markets led to a global economic slowdown in recent years, with many economies around the world showing significant signs of weakness or slow growth. While there has been a significant reduction in risk premiums in Europe since the second half of 2012 and economic growth has resumed positive figures since the second quarter of 2013, the possibility of future deterioration of the economic scenario exists. Any such deterioration could adversely affect the cost and availability of funding for Spanish and European banks, including us, and the quality of our loan portfolio, require us to take impairments on our exposures to the sovereign debt of one or more countries in the Eurozone or otherwise adversely affect our business, financial condition and results of operations.

The probability of country defaults or rupture of the Eurozone has decreased significantly since 2012. However, if one or more EU Member States were to exit from the European Monetary Union ("**EMU**"), this could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and cash flows. In addition, tensions among Member States of the EU, and Euro-skepticism in certain EU countries, could pose additional difficulties in the EU's ability to react to an economic crisis.

In addition, the risk of low inflation (inflation continues to be positive but well below the 2% growth rate of harmonized indices of consumer prices) or deflation (i.e., a continued period with negative rates of inflation) in the Eurozone cannot be completely ruled out. If economic conditions in the European Union and Spain deteriorate as a result, this could have a material adverse effect on our business, financial condition and results of operations.

Additionally, certain upcoming events such as the European Parliamentary elections, could have an adverse impact on the progress that has been made in establishing a European banking union and strengthening the monetary union of the Eurozone or could otherwise cause instability in the Eurozone.

The Bank is dependent on its credit ratings and any reduction of its or the Kingdom of Spain's credit ratings could materially and adversely affect the Group's business, financial condition and results of operations

The Bank is rated by various credit rating agencies. The Bank's credit ratings are an assessment by rating agencies of its ability to pay its obligations when due. Any actual or anticipated decline in the Bank's credit ratings to below investment grade or otherwise may increase the cost of and decrease the Bank'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 the Bank's credit ratings to below investment grade or otherwise could breach certain of the Bank's 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.

Since the Bank has substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. Any decline in the Kingdom of Spain's sovereign credit ratings could result in a decline in the Bank's credit ratings.

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

Since the Bank'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 developed its lending business in Spain, which continues to be its main place of business. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. While the last quarter of 2013 showed signs of a slowdown of such deterioration pattern, given the concentration of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on the Group's business financial condition and results of operations.

After rapid economic growth until 2007, Spanish gross domestic product ("**GDP**") contracted in the period 2009-10 and 2012-13. The GDP is growing again since the second half of 2013 and the Bank's Economic Research Department ("**BBVA Research**") estimates that the Spanish economy will maintain this positive trend in the years to come based on the improvement of the foreign demand and the measures adopted by the authorities in response to the economic crisis, including the structural reforms to foster competitiveness and productivity and the measures to reduce the public deficit. However, in the case that foreign demand is lower than expected and/or the measures and reforms do not contribute to enhancing competitiveness and productivity, the estimated positive scenario for the Spanish economy could be revised downwards. It is worth noting that the effects of the financial crisis were particularly pronounced in Spain given the country’s heightened need for foreign financing as reflected by its high current account and public deficit. Real or perceived difficulties in making the payments associated with this deficit can further damage Spain’s economic situation and increase the costs of financing its public deficit. The aforementioned may be exacerbated by the circumstances referred to below:

The Spanish economy is particularly sensitive to economic conditions in the rest of the euro area, the primary market for Spanish goods and services exports. Also, the interruption of the incoming recovery in the Eurozone might have a deep impact on Spanish economy growth.

Lastly, a change in the current recovery of the labor market might be very worrisome since it would affect households’ gross disposable income.

Exposure to the Spanish real estate market makes the Group vulnerable to developments in this market

In the years prior to 2008, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU, led to an increase in the demand for mortgage loans in Spain. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, demand began to adjust in mid-2006. Since the last quarter of 2008, the supply of new homes has been adjusting sharply downward in the residential market in Spain, but a significant excess of unsold homes still exists in the market. Spanish real estate prices continued to decline during 2012 in light of deteriorating economic conditions. Housing demand has remained weak and housing transactions continued to decrease during 2013 but are expected to stabilize in 2014.

The Group has substantial exposure to the Spanish real estate market and the continuing deterioration of Spanish real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Spanish real estate market due to the fact that Spanish real estate assets secure many of its outstanding loans and due to the significant amount of Spanish real estate assets held on its balance sheet, including real estate received in lieu of payment for certain underlying loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices.

If Spanish real estate prices fail to recover, the Group’s business may be materially adversely affected, which could materially and adversely affect its financial condition and results of operations.

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

Spanish households and businesses have reached, in recent years, a high level of indebtedness, 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 in Spain satisfying its credit standards, which could have an adverse effect on the Group’s ability to achieve its growth plans.

Risks Relating to Latin America

Events in Mexico could adversely affect the Group’s operations

The Mexican operations are relevant to the Group. The Group faces several types of risks in Mexico which could adversely affect its banking operations in Mexico or the Group as a whole. Despite signs of recovery following Mexico’s recession in 2009, economic conditions remain uncertain in Mexico. In addition, drug-related violence remains as a significant challenge for Mexico.

The Mexican economy grew by 1.2% in 2013 and is expected to grow by 3.4% in 2014. However, part of 2013 was characterized by a more acute downturn than originally forecasted due to the considerable slowdown in the industrial sector, partially driven by the weak private demand and also a contraction in public demand. The slowdown in the rate of job creation and the contribution of salaries to disposable income in real terms have been significant factors underlying the downturn in domestic demand. Another fact to consider is the low foreign-currency inflows from remittances, which continue to decline.

Delinquency rates on loans have increased in the past three years. If there is an increase in unemployment rates (which were 4.9% in 2013, 5.0% in 2012 and 5.2% in 2011 and are expected to be 4.6% in 2014), as a result for example of a more pronounced or prolonged slowdown in Europe or the United States, such rates may increase.

In addition, average inflation was 3.8% in 2013, exceeding the target set by the Mexican Central Bank. Any tightening of the monetary policy, including to address upward inflationary pressures, could make it more difficult for customers of the Group's mortgage and consumer loan products in Mexico to service their debts, which could have a material adverse effect on the business, financial condition, cash flows and results of operations of the Bank's Mexican subsidiary or the Group as a whole.

In addition, the Bank's operations are subject to regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in 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.

Moreover, 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 to 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. We 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.

Any of the risks referred to above or risks that may result from other adverse developments in laws, regulations, public policies or otherwise in Mexico may adversely affect the business, financial condition, operating results and cash flows of the Bank's Mexican subsidiary or the Group as a whole.

The Bank's Latin American subsidiaries' growth, asset quality and profitability may be affected by volatile macroeconomic conditions, including significant inflation and government default on public debt, in the Latin American countries where they operate

The Latin American countries in which the Group operates have experienced significant economic volatility in recent decades, characterized by recessions, foreign exchange crises and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which the Group lends. Negative and fluctuating economic conditions, such as a changing interest rate environment, also affect the Group's profitability by causing lending margins to decrease and leading to decreased demand for higher-margin products and services. In addition, significant inflation (such as inflation recently experienced by Venezuela and Argentina) and local currency devaluations (such as in Venezuela and Argentina) can negatively affect the Group's results of operations.

The start of the withdrawal of monetary stimuli by the Federal Reserve in the U.S., and the slowing of economic activity in several emerging markets led to an increase in volatility in the international financial markets in recent years. Latin America, like other emerging markets, has been one of the hardest hit in this new environment, particularly as Latin America benefited significantly from the increase in liquidity and the expansion in demand by countries such as China in recent years.

Many of the main challenges for the region relate to the evolution of external factors, including the crisis in Europe or the fiscal adjustment measures in the U.S., and the increasing use of macro-prudential measures to control global liquidity, which could deter financial flows to enter in Latin American countries. In addition, inflationary pressure in some countries in the region (with inflation in some countries exceeding the relevant central banks' targets) has led to different approaches from central banks when dealing with turbulence in the financial markets. Price overheating could leave Latin America economies more vulnerable to an adverse external shock since the more important role of exports in their GDP is making them more dependent on the maintenance of high terms of trade. Moreover, uncertainty on the evolution of the global economy and lower global liquidity will likely contribute to a slight depreciation in exchange rates in most countries. This would result in monetary policy being less likely to act as a stabilizer in case of domestic overheating. The region needs to promote reforms to increase productivity and to consolidate growth in the long term, as the sustainable growth of per capita income cannot be based only on capital accumulation and employment growth.

In addition, negative and fluctuating economic conditions in some Latin American countries could result in government defaults on public debt. This could affect the Group in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several Latin American countries in which the Group operates.

While the Group seeks to mitigate these risks through what it believes to be conservative risk policies, no assurance can be given that its Latin American subsidiaries' growth, asset quality and profitability will not be further affected by volatile macroeconomic conditions in the Latin American countries in which it operates.

Latin American economies can be directly and negatively affected by adverse developments in other countries

Financial and securities markets in Latin American countries in which the Group operates are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. The region's growth decelerated in 2012 and 2013, registering a growth rate of 2.1% (considering Argentina, Brazil, Chile, Colombia, Peru and Venezuela), in particular due to the economic slowdown of Brazil and Argentina, and was 2.6% in 2013. The region is expected to grow by 2.4% in 2014. The international financial outlook for Latin America has become less benign in recent months. Latin America, together with other emerging markets, has been one of the hardest hit regions by the economic crisis, with capital outflows, increases in sovereign spreads, stock market falls and devaluations in exchange rates. There has also been an adjustment in the prices of some of the most important export commodities during 2013. In addition, the outlook for foreign balances in Latin America worsened in 2013 due to the above mentioned correction in raw material prices and weak foreign demand.

Negative developments in the economy or securities markets in one country or area, particularly in the U.S., China or in Europe under current circumstances, may have a negative impact on emerging market economies. Among the main global risks for Latin American countries are those currently posed by the effects of the withdrawal of monetary stimuli or tapering in the U.S. by the Federal Reserve and the lower foreign demand of commodities mainly from Asian countries. Any such developments may adversely affect the business, financial condition, operating results and cash flows of BBVA's subsidiaries in Latin America. These economies are also vulnerable to conditions in global financial markets and especially to commodities price fluctuations and these vulnerabilities usually reflect adversely in financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. For example, at the beginning of the financial crisis these economies were hit by a simultaneous drop in commodity export prices, a collapse in demand for non-commodity exports and a sudden halting of foreign bank loans. Even though most of these countries withstood the triple shock, with limited damage to their financial sectors, non-performing loan ratios rose and bank deposits and loans contracted. These trends have been corrected in recent months in most countries. As a global economic recovery remains fragile, there are risks of a relapse. If the global financial crisis continues and, in particular, if the effects on the Chinese, European and U.S. economies intensify, the business, financial condition, operating results and cash flows of BBVA's subsidiaries in Latin America are likely to be materially adversely affected.

The Group is exposed to foreign exchange and, in some instances, political risks as well as other risks in the Latin American countries in which it operates, which could cause an adverse impact on its business, financial condition and results of operations

The Group operates commercial banks and insurance and other financial services companies in various Latin American countries and its overall success as a global business depends, in part, upon its ability to succeed in differing economic, social and political conditions. The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. 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. For instance, the repatriation of dividends paid and the payments of dividends by our Venezuelan and Argentinean subsidiaries need to be approved in advance by the relevant local authorities. Market outlook for the withdrawal of monetary stimuli or tapering in the U.S., together with the risk of an increased slowdown in China, triggered widespread devaluation in exchange rates in the region in 2013.

The Group's presence in Latin American markets also requires it to respond to rapid changes in market conditions in these countries. 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.

Regulatory changes in Latin America that are beyond the Group's control may have a material effect on its business, financial condition, results of operations and cash flows

A number of banking regulations designed to maintain the safety and soundness of banks and limit their exposure to risk are applicable in certain Latin American countries in which the Group operates. Local regulations differ in a number of material respects from equivalent regulations in Spain and the United States.

Changes in regulations may have a material effect on its business and operations, particularly in Venezuela and Argentina. In addition, since some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

Risks Relating to the United States

Adverse economic conditions in the United States may have a material effect on the Group's business, financial condition, results of operations and cash flows

As a result of the business of the Bank's subsidiaries in the United States, the Group is vulnerable to developments in this market, particularly the real estate market. The recent crisis had a significant effect on the real economy and resulted in significant volatility and uncertainty in markets and economies around the world. The recovery is still weak, as the economy is growing at low rates and unemployment is persistently high. The U.S. economy registered a 1.9% growth rate for 2013, down from 2.8% in 2012. A 2.5% growth rate is expected for 2014. Worsening economic conditions in the United States could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Bank's subsidiary BBVA Compass, or the Group as a whole, and could require the Bank to provide BBVA Compass with additional capital.

A further reduction in expansive monetary policies ("tapering") could increase exchange rate volatility

In order to stimulate their economies, countries such as the United States and Japan are currently carrying out expansive monetary policies. A reduction of this stimulus ("tapering"), such as that being implemented by the United States, could potentially increase exchange rate volatility. The change of direction in U.S. monetary policy has had a global impact. The emerging economies are being subjected to capital outflows and currency depreciation, intensified in some cases by domestic events that have increased uncertainty regarding the management of their respective local economic policies. There continues to be a differentiation between economies depending on their fundamentals: higher external deficits and more dependence on short-term and foreign-currency funding are associated with greater vulnerability to capital outflows and currency depreciation. The monetary tightening being introduced by some of these countries to control currency depreciation and inflation expectations may have a negative impact on growth. This might especially impact emerging economies such as Asia, Latin America and Turkey, which would negatively affect the business, financial condition, operating results and cash flows of the Bank's subsidiaries in such regions.

Risks Relating to Other Countries

The Group's business in Asia exposes it to regulatory, economic and geopolitical risk relating to emerging markets in the region, particularly in China

BBVA's ownership interest in members of the CITIC Group, a Chinese banking group, are a 29.7% stake in CITIC International Financial Holdings Ltd ("**CIFH**") and a 9.9% stake in China CITIC Bank Corporation Limited ("**CNCB**"). CIFH is a banking entity headquartered in Hong Kong and CNCB is a banking entity headquartered in China. As a result of the Group's expansion into Asia, it is exposed to increased risks relating to emerging markets in the region, particularly in China. The Chinese government has exercised, and continues to exercise, significant influence over the Chinese economy. Chinese 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 Chinese private sector entities in general, and on CIFH or CNCB in particular. Chinese authorities have implemented a series of monetary tightening and macro prudential policies to slow credit growth and to contain rises in real estate prices. These could undermine profitability in the banking sector generally and CIFH's and CNCB's respective profitability in particular. The Group's business in China may also be affected by the increased credit quality risks resulting from the increase in local government debt and financial stresses in smaller companies as their access to various forms of non-bank credit is tightened.

In addition, while the Group believes long term prospects in both China and Hong Kong are positive, particularly for the consumer finance market, near term risks are present from the impact of a slowdown in global growth, which could result in tighter financing conditions and could pose risks to credit quality. China's GDP growth has moderated following efforts to avert overheating and steer the economy towards a soft landing. For 2013, China registered a 7.7% growth in GDP and 7.6% growth is expected for 2014. While there was uncertainty at the beginning of 2013 regarding the sustainability of its growth and the possibility of a hard landing, the economy recovered in the second half of 2013, although some of the more recent data on confidence and expectations of manufacturing activity are once again below market expectations.

In addition, fundamental changes in China's economic policy have been announced. At the third plenum of the Chinese Communist Party, the authorities reiterated their commitment to maintaining high rates of growth, while at the same time proposing measures that will strengthen the role of the market in allocating resources and a rebalancing of the Chinese economy from a model of investment and exports towards increasing household consumption. These measures have high execution risks. For example, the rapid growth of credit is being reflected in liquidity tensions in the interbank market which are particularly affecting the shadow banking sector and a continuation of these tensions could have adverse effects on the stability of the system.

Any of these developments could have a material adverse effect on the Group's investments in China and Hong Kong or the business, financial condition, results of operations and cash flows of the Group.

Since Garanti operates primarily in Turkey, economic, political and other developments in Turkey may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti

In 2011, the Bank acquired a 25.01% interest in Türkiye Garanti Bankası A.Ş. ("**Garanti**"). Most of Garanti's operations are conducted, and most of its customers are located, in Turkey. Accordingly, Garanti's ability to recover on loans, its liquidity and financial condition and its results of operations are substantially dependent upon the economic, political and other conditions prevailing in or that otherwise affect Turkey. For instance, if the Turkish economy is adversely affected by, among other factors, a reduction in the level of economic activity, continuing inflationary pressures, devaluation or depreciation of the Turkish Lira, a natural disaster or an increase in domestic interest rates, then a greater portion of Garanti's customers may not be able to repay loans when due or meet their other debt service requirements to Garanti, which would increase Garanti's past due loan portfolio and could materially reduce its net income and capital levels.

After growing by approximately 2.4% in 2012 and 3.9% in 2013, the Turkish economy is expected to grow at a slower pace in 2014. In addition, inflation was 8.7% in 2012 and 7.6% in 2013, and may increase in 2014. The recent civil developments and political situation in Turkey as well as the interest rate increases to address the depreciation of the Turkish lira could adversely affect economic growth. The political crisis deepened in December 2013 and may continue. Furthermore, Turkey's recent credit boom led to the rapid widening of its current account deficit, which reached a multi-year high of 9.9% of GDP in 2011, 5.9% in 2012 and around 7.4% in 2013. Turkey is an emerging market and it is subject to greater risks than more developed markets, as witnessed by the recent civil developments, which may also have an adverse effect on the financial sector. Financial turmoil in any emerging market could negatively affect other emerging markets, including Turkey, or the global economy in general. Moreover, financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets, and may reduce liquidity to companies located in the affected markets. An increase in the perceived risks associated with investing in emerging economies in general, or Turkey in particular, could dampen capital flows to Turkey and adversely affect the Turkish economy.

In addition, actions taken by the Turkish government could adversely affect Garanti's business and prospects. For example, currency restrictions and other restraints on transfer of funds may be imposed by the Turkish government, Turkish government regulation or administrative polices may change unexpectedly or otherwise negatively affect Garanti, the Turkish government may increase its participation in the economy, including through nationalizations of assets, or the Turkish government may impose burdensome taxes or tariffs. The occurrence of any or all of the above risks could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti. Moreover, political uncertainty or instability within Turkey and in some of its neighboring countries (including as a result of the ongoing civil war in Syria) has historically been one of the potential risks associated with investments in Turkish companies.

Furthermore, a significant majority of Garanti's total securities portfolio is invested in securities issued by the Turkish government. In addition to any direct losses that Garanti might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government securities held in Garanti's securities portfolio and the Turkish banking system generally and make such government securities difficult to sell, and may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti.

Any of the risks referred to above could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti.

The Bank entered into a shareholders' agreement with Doğuş Holding A. Ş. in connection with the Garanti acquisition

The Bank entered into a shareholders' agreement with Doğuş Holding A.Ş. (Doğuş), in connection with the Garanti acquisition. Pursuant to the shareholders' agreement, the Bank and Doğuş have agreed to manage Garanti through the appointment of board members and senior management. Doğuş 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 Doğuş could adversely affect Garanti or the Bank. Furthermore, the Bank must successfully cooperate with Doğuş in order to manage Garanti and grow its business. It is possible that the Bank and Doğuş will be unable to agree on the management or operational strategies to be followed by Garanti, which could adversely affect Garanti's business, financial condition and results of operations and the value of the Bank's investment and lead to the Bank's failure to achieve the expected benefits from the Garanti acquisition.

Other Risks

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 results of operations, financial condition or prospects.

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 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 can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks could face fines from bank regulators if it fails to comply with applicable banking or reporting regulations.

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

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 Group-wide anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations.

Our financial statements and periodic disclosure under securities laws may not give you the same information as financial statements prepared under U.S. accounting rules and periodic disclosures provided by domestic U.S. issuers

Publicly available information about public companies in Spain is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States. In addition, although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of foreign private issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, we maintain our financial accounts and records and prepare our financial statements in conformity EU-IFRS required to be applied under the Bank of Spain's Circular 4/2004 and in compliance with IFRS-IASB, which differs in certain respects from U.S. GAAP, the financial reporting standard to which many investors in the United States may be more accustomed.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

BBVA's predecessor bank, BBV, was incorporated as a limited liability company (a "sociedad anónima" or S.A.) under the Spanish Corporations Law on October 1, 1988. BBVA was formed following the merger of Argentaria into BBV, which was approved by the shareholders of each entity on December 18, 1999 and registered on January 28, 2000. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and operates out of Paseo de la Castellana, 81, 28046, Madrid, Spain telephone number +34-91-374-6201. BBVA's agent in the U.S. for U.S. federal securities law purposes is Banco Bilbao Vizcaya Argentaria, S.A., New York Branch (1345 Avenue of the Americas, New York, New York 10105 (Telephone: 212-728-1660)). BBVA is incorporated for an unlimited term.

Capital Expenditures

Our principal investments are financial investments in our subsidiaries and affiliates. The main capital expenditures from 2011 to the date of this Annual Report were the following:

2013

Acquisition of Unnim Vida. On February 1, 2013, Unnim Banc, S.A. reached an agreement with Aegon Spain Holding B.V. to acquire its 50% stake in Unnim Vida, S.A. de Seguros y Reaseguros ("**Unnim Vida**"). As a result BBVA Group's total holding in the share capital of Unnim Vida is 100%.

2012

Acquisition of Unnim. On March 7, 2012, the Management Commission of the Fund for Orderly Bank Restructuring (*Fondo de Restructuración Ordenada Bancaria* or "**FROB**") accepted BBVA's offer to acquire Unnim Banc, S.A. ("**Unnim**"). The FROB, the Deposit Guarantee Fund of Credit Institutions (*Fondo de Garantía de Depósitos* or "**FGD**") and BBVA entered into a purchase agreement, by virtue of which BBVA acquired 100% of the shares of Unnim for a purchase price of €1.

In addition, BBVA, the FGD, the FROB and Unnim signed a Protocol of Financial Measures for the restructuring of Unnim, which regulates the Asset Protection Scheme through which the FGD will be responsible for 80% of the losses incurred by a predetermined asset portfolio of Unnim for a period of 10 years following the transaction.

On July 27, 2012, following the completion of the transaction, BBVA became the holder of 100% of the capital of Unnim.