B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Macroeconomic Risks

Economic conditions in the countries where the Group operates could have a material adverse effect on the Group’s business, financial condition and results of operations

Despite the sustained recent growth of the global economy, uncertainty remains. The deterioration of economic conditions in the countries where the Group operates could adversely affect the cost and availability of funding for the Group, the quality of the Group’s loan and investment securities portfolios and levels of deposits and profitability, which may also require the Group to take impairments on its exposures or otherwise adversely affect the Group’s business, financial condition and results of operations. In addition, the process the Group uses to estimate losses inherent in its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of its borrowers to repay their loans.

The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, affect the reliability of the process to determine and the sufficiency of the Group's loan loss provisions.

The Group faces, among others, the following economic risks:

- weak economic growth or recession in the countries where it operates;

- changes in the institutional environment in the countries where it operates could evolve into sudden and intense economic downturns and/or regulatory changes;

- a global trade war triggered by increasing tariffs and non-tariff barriers between the main economic blocks. The increase in trade barriers might adversely affect global trade flows both directly and indirectly, through the increase in financial volatility and the decrease in confidence levels of businesses and households, which could trigger an intense global economic slowdown or even a recession;

- deflation, mainly in Europe, or significant inflation, such as the significant inflation recently experienced by Venezuela and Argentina and, to a lesser extent, Turkey;

- changes in foreign exchange rates resulting in changes in the reported earnings of the Group's subsidiaries, particularly in Venezuela and Argentina, together with the relevant impact on profits, assets (including risk-weighted assets) and liabilities;

- a lower interest rate environment, or even a prolonged period of negative interest rates in some areas where the Group operates, which could lead to decreased lending margins and lower returns on assets;

- a higher interest rate environment, including as a result of an increase in interest rates by the Federal Reserve or any further tightening of monetary policies, including to address potential inflationary pressures and currency devaluations in Latin America, which could endanger economic growth and make it more difficult for customers of the Group's mortgage and consumer loan products to service their debts;

- adverse developments in the real estate market, especially in Spain, Mexico, the United States and Turkey, given the Group's exposures to such markets;

- poor employment growth and structural challenges restricting employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect household income levels of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan loss provisions;

- substantially lower oil prices, which could particularly affect producing areas, such as Venezuela, Mexico, Texas or Colombia, to which the Group is materially exposed or, conversely, substantially higher oil prices, which could have a negative impact on disposable income levels in oil consuming areas, such as Spain or Turkey, where the Group is also materially exposed;

- changes in laws, regulations and policies as a result of election processes in the different geographies in which the Group operates, which may negatively affect the Group's business or customers in those geographies and other geographies in which the Group operates;

- the potential exit by an EU Member State from the European Monetary Union, which 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;

- the possible political, economic and regulatory impacts related to the United Kingdom's proposed withdrawal from the European Union; and

- an eventual government default on or restructuring of public debt, which could affect the Group primarily in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default on or restructuring of public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several countries in which the Group operates.

For additional information relating to certain risks that the Group faces in Spain, see "*—Since the Group's loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on its financial condition*". For additional information relating to certain risks that the Group faces in emerging market economies such as Latin America and Turkey, see "*—The Group may be materially adversely affected by developments in the emerging markets where it operates*".

Any of the above risks could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group has historically developed its lending business in Spain, which continues to be one of the main focuses of its business. After rapid economic growth until 2007, Spanish gross domestic product ("**GDP**") contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. The current account imbalance has been corrected and the public deficit is in a downward trend, with GDP growth above 3% in 2015, 2016 and 2017, falling to 2.5% in 2018, and unemployment falling to 15.3% in 2018. While GDP growth is expected to remain positive in the next years, there is uncertainty regarding the sustainability of external growth as well as doubts over Spain's economic policy. Real or perceived difficulties in servicing public or private debt, triggered by foreign or domestic factors such as an increase in global financial risk or a decrease in the rate of domestic growth, could increase Spain's financing costs, hindering economic growth, employment and households' gross disposable income.

The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports. Accordingly, adverse changes in economic conditions in the Eurozone might have an adverse effect on Spanish economic growth. Given the relevance of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy could have a material adverse effect on the Group's business, financial condition and results of operations.

We may be adversely affected by political events in Catalonia

Our Spanish business includes extensive operations in Catalonia. Although actions carried out by the Spanish Government have helped diminish the level of uncertainty in the region resulting from its pro-independence movement, regional elections carried out in December 2017 resulted in pro-independence parties winning the majority of seats. As of the date of this Annual Report, there is still significant uncertainty regarding the outcome of political and social tensions in Catalonia, which could result in volatile capital markets and other financing conditions in Spain or otherwise adversely affect the environment in which we operate in Catalonia and the rest of Spain, any of which could have an adverse effect on our business, liquidity, financial condition and results of operations.

Any decline in the Kingdom of Spain's sovereign credit ratings could adversely affect the Group's business, financial condition and results of operations

Since the Bank is a Spanish company with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. As a result, 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 adversely affect the value of the Kingdom of Spain's and other public or private Spanish issuers' respective securities held by the Group in its various portfolios or otherwise materially adversely affect the Group's business, financial condition and results of operations. Furthermore, the counterparties to many of the Group's loan agreements could be similarly affected by any decline in the Kingdom of Spain's credit ratings, 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.

The Group may be materially adversely affected by developments in the emerging markets where it operates

The economies of some of the emerging markets where the Group operates, mainly Latin America and Turkey, experienced significant volatility in recent decades, characterized, in some cases, by slow or declining growth, declining investment, volatile interest rates, volatile currency values, hyperinflation and political tension.

Emerging markets are generally subject to greater risks than more developed markets. For example, there is typically a greater risk of loss in operating in emerging markets from unfavorable political and economic developments, both global and domestic, social and geopolitical instability, changes in economic policies (such as monetary, fiscal and macroprudential policies) or governmental decisions, including expropriation, nationalization, international ownership legislation, interest-rate caps, restrictions on business practices such as on commissions that can be charged, currency and exchange controls and tax policies and political unrest. In particular, Argentina, where the Bank operates through BBVA Banco Francés S.A. ("**BBVA Banco Francés**"), and Turkey, where the Bank operates through Garanti, have recently experienced significant exchange rate volatility (for example, the Argentine peso lost a significant portion of its value against the U.S. dollar during the course of 2018), rapidly-increasing interest rates and deteriorating economic conditions, adversely affecting our operations in such countries and the value of the related assets and liabilities when translated into euros.

In addition, emerging markets are affected by conditions in other related markets and in global financial markets generally (such as U.S. interest rates and the U.S. dollar exchange rate) and some are particularly affected by commodities price fluctuations, which in turn may affect financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. Despite sustained global economic growth, there are increasing risks of deterioration that might be triggered by a full-blown trade war, geopolitical events or changes in financial risk appetite. If global economic conditions deteriorate, the business, financial condition, operating results and cash flows of the Bank's subsidiaries in emerging economies, mainly in Latin America and Turkey, may be materially adversely affected. Hyperinflation in Argentina had a negative impact of €266 million in the "Profit attributable to parent company" for 2018. For additional information, see Note 2.2.20 to the Consolidated Financial Statements.

Furthermore, financial turmoil in any particular emerging market could negatively affect other emerging markets or the global economy in general. Financial turmoil in a particular emerging market tends to adversely affect exchange rates, 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 the emerging markets where the Group operates in particular, could dampen capital flows to such economies and adversely affect such economies.

In addition, any changes in laws, regulations and policies pursued by the U.S. Government may adversely affect the emerging markets in which the Group operates, particularly Mexico due to the trade and other ties between Mexico and the United States. See "*—Our business could be adversely affected by global political developments, particularly with regard to U.S. policies that affect Mexico*".

If economic conditions in the emerging market economies where the Group operates deteriorate, the Group's business, financial condition and results of operations could be materially adversely affected.

We may be adversely affected by the United Kingdom's planned exit from the European Union

In a referendum held in the United Kingdom on June 23, 2016, a majority of those voting voted for the United Kingdom to leave the European Union (referred to as "**Brexit**"). On March 29, 2017, the United Kingdom gave formal notice under Article 50 of the Treaty on European Union officially notifying the European Union of its decision to withdraw from the European Union, which began a statutory two-year period during which officials from the United Kingdom and the European Union have been negotiating the terms of the United Kingdom's withdrawal from, and future relationship with, the European Union. No agreement has yet been reached and approved by the relevant parties as of the date of this Annual Report. Extensions of this period must be approved unanimously by all member states of the European Union. If no agreement is reached and approved by March 29, 2019, and no extension is agreed, the United Kingdom would automatically leave the European Union and EU laws and regulations would cease to apply to the United Kingdom on such date unless the United Kingdom revokes its formal notice under Article 50 of the Treaty on European Union.

As of the date of this Annual Report, the United Kingdom remains a member of the European Union. However, Brexit has already affected and could continue to adversely affect European and/or worldwide economic and market conditions and could continue to contribute to instability in the global financial markets. The long-term effects of Brexit will depend in part on whether the UK Parliament approves an agreement negotiated with the Council of the European Union, whether the United Kingdom leaves the European Union with no agreement in place (referred to as a "hard Brexit"), or whether the United Kingdom ultimately remains a member of the European Economic Area or the European Union, as a result of a second referendum, new UK elections or otherwise.

The Group currently maintains a branch in the United Kingdom, had 126 employees in the United Kingdom as of December 31, 2018, has significant cross-border outstandings with the United Kingdom, primarily with banks and other financial institutions, as well as sovereign risk exposure of €51 million as of December 31, 2018, and has a 39.06% stake in the UK digital bank Atom Bank plc. In addition to its effects on the European and global economy and financial markets, Brexit, and in particular a hard Brexit, could impair or otherwise limit our ability to transact business in the United Kingdom or elsewhere. In addition, we expect that Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replicate or replace. If the United Kingdom were to significantly alter its regulations affecting the banking industry, we could face significant new costs and compliance difficulties as it may be time-consuming and expensive for us to alter our internal operations in order to comply with new regulations. In addition, we may face challenges in the recruitment and mobility of employees as well as adverse effects from fluctuations in the value of the pound sterling that may directly or indirectly affect the value of any assets of the Group, including those assets, and their respective risk-weighted assets, denominated in such currency. Moreover, it is possible that Brexit, particularly a hard Brexit, could cause a recession in the United Kingdom as well as in the European Union, including in Spain. Due to the ongoing political uncertainty as regards the terms of the United Kingdom's possible withdrawal from the European Union and their future relationship, the precise impact on the business of the Group is difficult to determine. Any of the above or other effects of Brexit could have a material adverse effect on the Group's business, financial condition and results of operations.

Our business could be adversely affected by global political developments, particularly with regard to U.S. policies that affect Mexico

Changes in economic, political and regulatory conditions in the United States or in U.S. laws and policies governing foreign trade and foreign relations could create uncertainty in the international markets and could have a negative impact on the Mexican economy and public finances. This correlation is due, in part, to the high level of economic activity between the two countries generally, including the trade facilitated by the North American Free Trade Agreement ("**NAFTA**"), as well as due to their physical proximity.

Following the U.S. elections in November 2016 and the change in the U.S. administration for the four-year period from 2017 to 2020, there is uncertainty regarding future U.S. policies with respect to matters of importance to Mexico and its economy, including trade and immigration. In particular, since August 16, 2017, the U.S. administration has been renegotiating the terms of NAFTA with its Mexican and Canadian counterparts, and on November 30, 2018 the United States, Mexico and Canada signed the United States-Mexico-Canada Agreement (the "**USMCA**"). While the United States, Mexico and Canada have agreed the terms of USMCA, NAFTA currently remains in effect. In the United States, USMCA can come into effect only following the completion of the procedures required by the U.S. Trade Promotion Authority, including a Congressional vote on an implementing bill. USMCA will also need to be approved by the legislatures of Canada and Mexico. As such, there remains significant uncertainty as to whether USMCA will be ratified in its current form, or at all.

Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation or termination of NAFTA and/or the adoption of USMCA or other U.S. government policies may adversely affect economic conditions in Mexico. Any decision taken by the U.S. administration that has an impact on the Mexican economy, such as by reducing the levels of remittances, reducing commercial activity among the two countries or slowing direct foreign investment in Mexico, could adversely affect the Group's business, financial condition and results of operations.

U.S. immigration policies could also affect trade and other relations between Mexico and the United States and have other consequences for Mexican government policies. These factors could have an impact on Mexico's GDP growth, the exchange rate between the U.S. dollar or euro and the Mexican peso, levels of foreign direct investment and portfolio investment in Mexico, interest rates, inflation and the Mexican economy generally, which in turn, may have an impact on the Group's business, financial condition and results of operations.

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

Regulatory, business, economic or political changes and other factors could lead to asset impairment. Severe market events such as the past sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures in recent years. Several factors could further depress the valuation of our assets or otherwise lead to the impairment of such assets (including goodwill and deferred tax assets). Current political processes such as the implementation of Brexit, which may result in the United Kingdom leaving the European Union, the surge of populist trends in several European countries, increased trade tensions or potential changes in U.S. economic policies implemented by the U.S. administration, could increase global financial volatility and lead to the reallocation of assets. Doubts regarding the asset quality of European banks also affected their evolution in the market in recent years. In addition, uncertainty about China's growth expectations and its policymaking capability to address certain severe challenges has contributed to the deterioration of the valuation of global assets and further increased volatility in the global financial markets. 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. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs. In addition, the Group may be required to derecognize deferred tax assets if it believes it is unable to use them over the period for which the deferred tax assets remain deductible.

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

While the Group has recently taken several steps to reduce its exposure to the real estate market in Spain (see "*Item 4. Information on the Company—Business Overview—Operating Segments—Non Core Real Estate*"), it continues to be exposed to the real estate market due to the fact that real estate assets secure many of its outstanding loans and due to the significant amount of real estate assets held on its balance sheet and its stakes in real estate companies such as Metrovacesa, S.A. and Divarian Propiedad, S.A. Any deterioration of real estate prices could materially and adversely affect the Group's business, financial condition and results of operations.

Legal, Regulatory and Compliance Risks

In addition to the risk factors set forth below, see "*—Liquidity and Financial Risks—Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities*".

The Group is subject to substantial regulation and regulatory and governmental oversight. Changes in the regulatory framework 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. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crises. Legislation has already been enacted and regulations issued as a consequence of some of these proposals. The regulatory framework for financial institutions is likely to undergo further significant change. This creates significant uncertainty for the Group and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

In addition, the supervisory framework has been intensified, in conjunction with the increased emphasis on the regulatory framework, such that the new institutional structure in Europe for supervision, with the creation of the single supervisory mechanism (the "**SSM**"), and for resolution, with the single resolution mechanism (the "**SRM**"), is changing the regulatory and supervisory framework (see "*—Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on the Bank's business, financial condition and results of operations*"). The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still ongoing. In addition, since some of these laws and regulations have been recently adopted, the manner in which they 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. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

Furthermore, regulatory and supervisory authorities have substantial discretion in how to regulate and supervise banks, and this discretion, and the means available to regulators and supervisors, have been steadily increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions that are deemed to be systemically important (including global systemically important banks ("**G-SIBs**") and institutions deemed to be of local systemic importance, domestic systemically important banks ("**D-SIBs**"), such as the Bank).

In addition, local regulations in certain jurisdictions where the Group operates differ in a number of material respects from equivalent regulations in Spain or the United States. Changes in regulations may have a material adverse effect on the Group's business, results of operations and financial condition, particularly in Mexico, the United States, Turkey, Venezuela and Argentina. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the Group's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation. In addition, financial institutions which are based in other jurisdictions, including the United States, could benefit from any deregulation efforts implemented in such jurisdictions. Moreover, to the extent recently adopted regulations are implemented inconsistently in the various jurisdictions in which the Group operates, the Group may face higher compliance costs.

Any required changes to the Group's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit the Group's ability to pursue business opportunities in which the Group might otherwise consider engaging, affect the value of assets that the Group holds, require the Group to increase its prices and therefore reduce demand for its products, impose additional costs on the Group or otherwise adversely affect the Group's businesses. For example, the Group is subject to substantial regulation relating to liquidity. Future liquidity standards could require it to maintain a greater proportion of its assets in highly liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the Group's regulators, as part of their supervisory function, periodically review the Group's allowance for loan losses. Such regulators may require the Group to increase its allowance for loan losses or to recognize further losses. Any such additional provisions for loan losses, as required by these regulators whose views may differ from those of the Group's management, could have an adverse effect on the Group's earnings and financial condition.

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Group's business, results of operations and financial condition.

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

As a Spanish credit institution, the Bank is subject to Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (as amended, replaced or supplemented from time to time, the "**CRD IV Directive**"), through which the EU began implementing the Basel III capital reforms, with effect from January 1, 2014, with certain requirements being phased in until January 1, 2019. The core regulation regarding the solvency of credit institutions is Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (as amended, replaced or supplemented from time to time, the "**CRR**" and, together with the CRD IV Directive and any measures implementing the CRD IV Directive or the CRR which may from time to time be applicable in Spain, the "**CRD IV**"), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU Member States, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law took place through Royal Decree-Law 14/2013, of November 29, Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions ("**Law 10/2014**"), Royal Decree 84/2015, of February 13 ("**RD 84/2015**"), Bank of Spain Circular 2/2014, of January 31 and Bank of Spain Circular 2/2016, of February 2 (the "**Bank of Spain Circular 2/2016**").

On November 23, 2016, the European Commission published a package of proposals with further reforms to CRD IV, Directive 2014/59/EU, of May 15 establishing a framework for the recovery and resolution of credit institutions and investment firms (as amended, replaced or supplemented from time to time, the "**BRRD**") and Regulation (EU) No. 806/2014 of the European Parliament and of the Council of July 15, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended, replaced or supplemented from time to time, the "**SRM Regulation**"), including measures to increase the resilience of EU institutions and enhance financial stability. On May 25, 2018, the Council of the European Union published the Presidency compromise proposals relating to the European Commission's package of proposals referred to above and on June 25 and 28, 2018, the European Parliament Committee on Economic and Monetary Affairs published reports containing its proposed amendments to the European Commission's package of proposals. The final political agreement between the European Parliament and the Council on these reforms was published on February 15, 2019 (the European Commission's package of proposals together with the Presidency compromise proposals, the proposed amendments of the European Parliament and such final political agreement, the "**EU Banking Reforms**"). The timing for the final implementation of these reforms as at the date of this Annual Report is unclear.

CRD IV, among other things, established minimum "Pillar 1" capital requirements and increased the level of capital required by means of a "combined buffer requirement" that entities must comply with from 2016 onwards. The "combined buffer requirement" introduced five new capital buffers: (i) the capital conservation buffer, (ii) the G-SIB buffer, (iii) the institution-specific countercyclical buffer, (iv) the D-SIB buffer, and (v) the systemic risk buffer (a buffer to prevent systemic or macro prudential risks). The "combined buffer requirement" applies in addition to the minimum "Pillar 1" capital requirements and is required to be satisfied with common equity tier 1 ("**CET1**") capital.

The G-SIB buffer applies to those institutions included on the list of G-SIBs, which is updated annually by the Financial Stability Board (the "**FSB**"). The Bank was excluded from this list with effect from January 1, 2017 and so, unless otherwise indicated by the FSB (or the Bank of Spain) in the future, it will no longer be required to maintain a G-SIB buffer.

The Bank of Spain announced on November 21, 2018 that the Bank continues to be considered a D-SIB and is required to maintain a fully-loaded D-SIB buffer of a CET1 capital ratio of 0.75% on a consolidated basis.

The Bank of Spain agreed in December 2015 to set the countercyclical capital buffer applicable to credit exposures in Spain at 0% from January 1, 2016. This percentage is revised each quarter. The Bank of Spain agreed in December 2018 to maintain the countercyclical capital buffer at 0% for the first quarter of 2019. As of the date of this Annual Report, the countercyclical capital buffer applicable to the Group stands at 0.01% and relates to the Group's exposures in other jurisdictions.

The Bank of Spain has greater discretion in relation to the determination of the institution-specific countercyclical buffer, the buffer for D-SIBs and the systemic risk buffer. With the entry into force of the SSM on November 4, 2014, the European Central Bank (the "**ECB**") has the ability to provide certain recommendations in this respect and potentially increase such buffers.

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

Furthermore, the ECB is required, under Regulation (EU) No. 468/2014 of the ECB of April 16, 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities and with national designated authorities (the "**SSM Framework Regulation**"), to carry out a supervisory review and evaluation process (the "**SREP**") of the Bank and the Group at least on an annual basis.

In addition to the above, the European Banking Authority (the "**EBA**") published on December 19, 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the "**EBA SREP Guidelines**"). Included in the EBA SREP Guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional "Pillar 2" own funds requirements to be implemented from January 1, 2016. In accordance with these guidelines, national supervisors should set the composition of the capital instruments required to comply with the "Pillar 2" requirement, so that at least 56% of the "Pillar 2" requirement is covered with CET1 capital and at least 75% with Tier 1 capital, as has also been provided in the EU Banking Reforms. The EBA SREP Guidelines and the EU Banking Reforms also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the "combined buffer requirement" and/or additional macro-prudential requirements. On July 19, 2018, the EBA published its final guidelines aimed at further enhancing institutions' risk management and supervisory convergence in respect of SREP. These guidelines focus on stress testing, particularly its use in setting "Pillar 2" capital guidance and the level of interest rate risk.

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

As a result of the most recent SREP carried out by the ECB, we received a communication from the ECB pursuant to which we are required to maintain, as from March 1, 2019 on a consolidated basis, a CET1 capital ratio of 9.26% (8.53% on an individual basis) and a total capital ratio of 12.76% (12.03% on an individual basis). This total capital requirement (on a consolidated basis) includes: (i) the minimum CET1 requirement under Pillar 1 (4.5%); (ii) the Additional Tier 1 capital (AT1) requirement under Pillar 1 (1.5%); (iii) the tier 2 capital requirement under Pillar 1 (2%); (iv) the CET1 capital requirement under Pillar 2 (1.5%), which remains unchanged since the prior SREP; (v) the capital conservation buffer (2.5% of CET1); (vi) the Other Systemic Important Institution buffer (OSII) (0.75% of CET1); and (vii) the countercyclical capital buffer (0.01% of CET1).

As of December 31, 2018, the Bank's phased-in total capital ratio was 15.71% on a consolidated basis and 22.07% on an individual basis. As of December 31, 2018, the Bank's CET1 phased-in capital ratio was 11.58% on a consolidated basis and 17.45% on an individual basis. Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements imposed on the Bank and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional own funds requirements on the Bank and/or the Group.

Additionally, on February 1, 2019, the Bank announced its new CET1 fully-loaded capital target, consisting of a CET1 ratio within the range between 11.5% and 12.0% on a consolidated basis, and which the Bank expects to achieve by 2019 year-end. No assurance can be given that the Bank will achieve this target. See "*Cautionary Statement Regarding Forward-Looking Statements*". Any failure by the Bank to maintain a consolidated CET1 capital ratio in line with its CET1 fully-loaded capital target could adversely affect the market price or value or trading behavior of any securities issued by the Bank (and, in particular, any of its capital instruments) and ultimately lead to the imposition of further "Pillar 2" guidance or requirements.

On March 15, 2018, the ECB further published the ECB's supervisory expectations for prudent levels of provisions for non-performing loans ("**NPLs**"). This was published as an addendum (the "**Addendum**") to the ECB's guidance to banks on non-performing loans published on March 20, 2017, which clarified the ECB's supervisory expectations regarding the identification, management, measurement and write-off of NPLs. The ECB states that the Addendum sets out what it deems to be a prudent treatment of NPLs with the aim of avoiding an excessive build-up of non-covered aged NPLs on banks' balance sheets in the future, which would require supervisory measures.

The ECB states that it will assess any differences between banks' practices and the prudential provisioning expectations laid out in the Addendum at least annually and will link the supervisory expectations in the Addendum to new NPLs classified as such from April 1, 2018 onwards. Banks will be asked to inform the ECB of any differences between their practices and the ECB's prudential provisioning expectations, as part of the SREP supervisory dialogue, from early 2021 onwards. Ultimately this could result in the ECB requiring banks to apply specific adjustments to own funds calculations where the accounting treatment applied by the bank is considered not prudent from a supervisory perspective, which could in turn impact on the capital position of the relevant bank. The supervisory expectations set out in the Addendum are expected to be reflected in the proposed amendments to the CRR as part of the EU Banking Reforms, which could impact the minimum coverage levels required for newly originated loans that become non-performing, requiring banks to increase their provisioning for future NPLs.

Furthermore, the EU Banking Reforms propose new requirements that capital instruments should meet in order to be considered as Additional Tier 1 instruments or Tier 2 instruments, including certain grandfathering measures. To the extent any of these new requirements are not subject to a grandfathering or exemption regime for those Additional Tier 1 instruments and/or Tier 2 instruments already in issue at the time such new requirements are implemented, such instruments could be subject to regulatory uncertainties on their inclusion as capital. This may lead to regulatory capital shortfalls and ultimately a breach of the applicable minimum regulatory capital requirements.

Any failure by the Bank and/or the Group to comply with its "Pillar 1" minimum regulatory capital ratios, any "Pillar 2" additional own funds requirements and/or any "combined buffer requirement" could result in the imposition of restrictions or prohibitions on "discretionary payments" by the Bank as discussed below or administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations.

According to Article 48 of Law 10/2014, Article 73 of RD 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, any entity not meeting its "combined buffer requirement" is required to determine its Maximum Distributable Amount ("**MDA**") as described therein. Until the MDA has been calculated and communicated to the Bank of Spain, where applicable, the relevant entity shall not make any (i) distributions relating to CET1 capital, (ii) payments in respect of variable remuneration or discretionary pension revenues and (iii) distributions relating to Additional Tier 1 instruments ("**discretionary payments**") and, once the MDA has been calculated and communicated to the Bank of Spain, any such discretionary payments by that entity will be subject to such MDA limit.

Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014, aimed at strengthening own funds or limiting or prohibiting the distribution of dividends respectively will also result in a requirement to determine the MDA and restrict discretionary payments to such MDA. Pursuant to the EU Banking Reforms, the calculation of the MDA and the consequences thereof, as well as the restrictions specified in the paragraph above while such calculation is pending, could also be triggered by a breach of MREL (as defined herein) (see "*—Any failure by the Bank and/or the Group to comply with its MREL could have a material adverse effect on the Bank's business, financial condition and results of operations*" below) or a breach of the minimum leverage ratio requirement.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on December 16, 2015 (the "**December 2015 EBA Opinion**"), in the EBA's opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the MDA calculation is limited to the amount not used to meet the "Pillar 1" and, if applicable, "Pillar 2" own funds requirements of the institution. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements. The EU Banking Reforms propose certain amendments in order to clarify, for the purposes of restrictions on distributions, the hierarchy between the "Pillar 2" additional own funds requirements, the minimum "own funds" "Pillar 1" requirements, the own funds and eligible liabilities requirement, MREL and the "combined buffer requirements" (which is referred to as "stacking order"). In particular, no distinction is proposed to be made where discretionary payments are restricted to the MDA between distributions relating to CET1 capital or payments in respect of variable remuneration or discretionary pension revenues, and payments due on Additional Tier 1 instruments.

On July 1, 2016, the EBA published additional information explaining how supervisors should use the results of the 2016 EU-wide stress test for SREP assessments. The EBA stated, among other things, that the incorporation of the quantitative results of the EU-wide stress test into SREP assessments may include setting additional supervisory monitoring metrics in the form of capital guidance. Such guidance will not be included in MDA calculations but competent authorities would expect banks to meet that guidance except when explicitly agreed. Competent authorities have remedial tools if an institution refuses to follow such guidance. The EU Banking Reforms also propose that a distinction be made between "Pillar 2" capital requirements and "Pillar 2" capital guidance, with only the former being mandatory requirements. Notwithstanding the foregoing, the EU Banking Reforms propose that, in addition to certain other measures, supervisory authorities be entitled to impose further "Pillar 2" capital requirements where an institution repeatedly fails to follow the "Pillar 2" capital guidance previously imposed.

The ECB has also confirmed in its recommendation of January 7, 2019 on dividend distribution policies that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the SREP.

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result, among other things, in the imposition of further "Pillar 2" requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of June 18 on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended, replaced or supplemented from time to time ("**Law 11/2015**"), which, together with Royal Decree 1012/2015 of November 16 by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996 of December 20 on credit entities' deposit guarantee fund is amended (as amended, replaced or supplemented from time to time, "**RD 1012/2015**"), has implemented the BRRD into Spanish law. See "*—Bail-in and write-down powers under the BRRD and the SRM Regulation may adversely affect our business and the value of any securities we may issue*" below.

On November 2, 2018, the EBA, in cooperation with the ECB and the European Systemic Risk Board (the "**ESRB**"), published the results of its 2018 EU-wide stress test of 48 European banks, including the Bank. This assessment was based on the participating banks' consolidated balance sheets as of December 31, 2017. The stress test examined the resilience of banks against two separate scenarios – a baseline scenario and an adverse scenario during a three-year period beginning on December 31, 2017 and ending on December 31, 2020. Under both scenarios, the CET1 fully-loaded ratios, among other measures, of participating banks were analyzed over that period to understand bank sensitivities under prescribed stressed economic conditions. The baseline scenario was provided by the ECB and reflected macroeconomic forecasts prevailing as of December 31, 2017. The adverse scenario was prepared by the ESRB in collaboration with the ECB and the EBA and represented a severe economic downturn. As the stress test uses the Bank's consolidated balance sheet as of December 31, 2017, it does not take into account subsequent business strategies and management actions, including the sale of the Bank's 68.2% stake in Banco Bilbao Vizcaya Argentaria Chile, S.A. ("**BBVA Chile**") to The Bank of Nova Scotia group ("**Scotiabank**") on July 6, 2018 or the Cerberus Transaction (as defined herein). The stress test is not a forecast of the Bank's profits and does not include a defined pass/fail threshold. Instead, it was utilized by the SREP carried out by the ECB in 2018. Under the stress test, the Bank's starting CET1 fully-loaded ratio as of December 31, 2017 was restated from 11.04% to 10.73% as a result of the implementation of IFRS 9. Under the baseline scenario, the Bank's CET1 fully-loaded ratio increases 1.99 basis points to 12.72% as of December 31, 2020, and under the adverse scenario the Bank's CET1 fully-loaded ratio decreases 1.93 basis points to 8.80% as of December 31, 2020.

At its meeting of January 12, 2014, the oversight body of the Basel Committee on Banking Supervision ("**BCBS**") endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from January 1, 2015. As of the date of this Annual Report, there is no applicable regulation in Spain which establishes a specific leverage ratio requirement for credit institutions. However, the EU Banking Reforms propose a binding leverage ratio requirement of 3% of Tier 1 capital that is added to an institution's own funds requirements and that an institution must meet in addition to its risk based requirements. In particular, any breach of this leverage ratio could also result in a requirement to determine the MDA and restrict discretionary payments to such MDA, as well as trigger the restrictions referred to above while such calculation is pending.

In addition, on December 7, 2017 the BCBS announced the finalized Basel III reforms (informally referred to as Basel IV). These reforms include changes to the risk weightings applied to different assets and measures to enhance the risk sensitivity in such weightings and impose limits on the use of internal ratings-based approaches to ensure a minimum level of conservatism in the use of such ratings-based approaches and provide for greater comparability across banks where such internal ratings-based approaches are used. Revised capital floor requirements will also limit the regulatory capital benefit for banks in calculating total risk-weighted assets using internal risk models as compared to the standardized approach, with a minimum capital requirement of 50% of risk-weighted assets calculated using only the standardized approaches applying from January 1, 2022 and increasing to 72.5% from January 1, 2027. To the extent these reforms result in an increase in the total risk-weighted assets of the Bank they could also result in a corresponding decrease in the Bank's capital ratio.

The ECB has announced that it is conducting a targeted review of the internal models ("**TRIM**") being used by banks subject to its supervision for their internal ratings-based approaches in applying risk weightings to assets. TRIM is being undertaken to assess the extent to which such internal models are considered to be in line with regulatory requirements, and the results of those internal models are reliable and comparable, in order to harmonize the approaches to internal models used by banks across the European Union. During 2016, the ECB launched preliminary questionnaires and data requests, and on-site investigations were conducted in 2017 and the first half of 2018. This first phase of TRIM involved a review of the models used to assess the credit risk for retail and small and medium-sized enterprise portfolios, as well as market risk and counterparty credit risk. Phase two, focusing on the models used to assess the credit risk for so-called low-default portfolios, started in the second half of 2018 and is expected to continue throughout 2019. Though the outcome of TRIM is at this stage unknown, the objective of the ECB in undertaking TRIM is to reduce unwarranted variability in risk-weighted assets across banks, not to increase risk-weighted assets in general. Nevertheless, TRIM could lead to increases or decreases in the capital needs of banks. To the extent TRIM results in any changes being required to the internal models used by banks and such changes result in an increase in the Bank's risk-weighted assets, this could have a corresponding impact on the Bank's capital position.

The implementation of Basel reforms differs across jurisdictions in terms of timing and applicable rules. This lack of uniformity among implemented rules may lead to an uneven playing field and to competition distortions. Moreover, the lack of regulatory coordination, with some countries bringing forward the application of Basel requirements or increasing such requirements, could adversely affect a bank with global operations such as the Bank and could affect its profitability.

There can be no assurance that the implementation of the above capital requirements will not adversely affect the Bank's ability to make "discretionary payments", or result in the cancellation of such payments (in whole or in part), or require the Bank to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

Bail-in and write-down powers under the BRRD and the SRM Regulation may adversely affect our business and the value of any securities we may issue

The BRRD (which has been implemented in Spain through Law 11/2015 and RD 1012/2015) and the SRM Regulation are designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing credit institutions or investment firms (each, an "**institution**") so as to ensure the continuity of the institution's critical financial and economic functions, while minimizing the impact of an institution's failure on the economy and financial system. The BRRD further provides that any extraordinary public financial support through additional financial stabilization tools is only to be used by a Member State as a last resort, after having assessed and utilized the resolution tools set out below to the maximum extent possible while maintaining financial stability.

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorization; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances). The determination that an institution is failing or likely to fail may depend on a number of factors which may be outside of that institution's control.

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where a Relevant Spanish Resolution Authority (as defined below) considers that (i) an institution is failing or likely to fail; (ii) there is no reasonable prospect that any other measure would prevent the failure of such institution within a reasonable timeframe; and (iii) a resolution action, instead of the winding up of the institution under normal insolvency proceedings, is in the public interest. The four resolution tools are (i) sale of business, which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution, which enables resolution authorities to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the institution to meet its repayment obligations; (iii) asset separation, which enables resolution authorities to transfer certain categories of assets (normally impaired or otherwise problematic) to one or more asset management vehicles to allow them to be managed with a view to maximizing their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) the Spanish Bail-in Power (as defined below). Any exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority may include the write down and/or conversion into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) of certain unsecured debt claims of an institution.

"**Relevant Spanish Resolution Authority**" means the Spanish Fund for the Orderly Restructuring of Banks (*Fondo de Restructuración Ordenada Bancaria*) ("**FROB**"), the European Single Resolution Mechanism ("**SRM**") and, as the case may be, according to Law 11/2015, the Bank of Spain and the CNMV (as defined herein), and any other entity with the authority to exercise the Spanish Bail-in Power from time to time. "**Spanish Bail-in Power**" means any write-down, conversion, transfer, modification, or suspension power existing from time to time under: (i) any law, regulation, rule or requirement applicable from time to time in Spain, relating to the transposition or development of the BRRD (as amended, replaced or supplemented from time to time), including, but not limited to (a) Law 11/2015, (b) RD 1012/2015; and (c) the SRM Regulation, each as amended, replaced or supplemented from time to time; or (ii) any other law, regulation, rule or requirement applicable from time to time in Spain pursuant to which (a) obligations or liabilities of banks, investment firms or other financial institutions or their affiliates can be reduced, cancelled, modified, transferred or converted into shares, other securities, or other obligations of such persons or any other person (or suspended for a temporary period or permanently) or (b) any right in a contract governing such obligations may be deemed to have been exercised.

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order: (i) CET1 items; (ii) the principal amount of Additional Tier 1 instruments; (iii) the principal amount of Tier 2 capital instruments; (iv) the principal amount of other subordinated claims that are not Additional Tier 1 capital or Tier 2 capital; and (v) the principal or outstanding amount of the remaining eligible liabilities in the order of the hierarchy of claims in normal insolvency proceedings.

In addition to the Spanish Bail-in Power, the BRRD, Law 11/2015 and the SRM Regulation provide for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability ("**Non-Viability Loss Absorption**" and, together with the Spanish Bail-in Power, the **"Spanish Statutory Loss-Absorption Powers"**) of an institution or a group. The point of non-viability of an institution is the point at which the Relevant Spanish Resolution Authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or converted into equity or extraordinary public support is to be provided and without such support the Relevant Spanish Resolution Authority determines that the institution would no longer be viable. The point of non-viability of a group is the point at which the group infringes or there are objective elements to support a determination that the group, in the near future, will infringe its consolidated solvency requirements in a way that would justify action by the Relevant Spanish Resolution Authority in accordance with article 38.3 of Law 11/2015. Non-Viability Loss Absorption may be imposed prior to or in combination with any exercise of the Spanish Bail-in Power or any other resolution tool or power (where the conditions for resolution referred to above are met).

To the extent that any resulting treatment of a holder of the Bank's securities pursuant to the exercise of the Spanish Statutory Loss-Absorption Powers (except, as indicated below, with respect to a Non-Viability Loss Absorption) is less favorable than would have been the case under such hierarchy in normal insolvency proceedings, a holder of such affected securities would have a right to compensation under the BRRD and the SRM Regulation based on an independent valuation of the institution, in accordance with Article 10 of RD 1012/2015 and the SRM Regulation. Any such compensation, however, together with any other compensation provided by any Applicable Banking Regulations (including, among such other compensation, in accordance with article 36.5 of Law 11/2015) is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. "**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank and/or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect in Spain (whether or not such regulations, requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group). Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the affected securities. In addition, in the case of a Non-Viability Loss Absorption it is not clear that a holder of the affected securities would have a right to compensation under the BRRD and the SRM Regulation if any resulting treatment of such holder pursuant to the exercise of the Non-Viability Loss Absorption was less favorable than would have been the case under such hierarchy in normal insolvency proceedings.

The powers set out in the BRRD, as implemented through Law 11/2015 and RD 1012/2015, and the SRM Regulation impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, upon any application of the Spanish Bail-in Power and/or Non-Viability Loss Absorption, holders of, among others, unsecured debt securities, subordinated obligations and shares issued by us may be subject to, among other things, a write-down (including to zero) and/or conversion into equity or other securities or obligations on any application of the Spanish Bail-in Power. The exercise of any such powers (or any of the other resolution powers and tools) may result in such holders of such securities losing some or all of their investment or otherwise having their rights under such securities adversely affected, including by becoming holders of further subordinated instruments. Such exercise could also involve modifications to, or the disapplication of, provisions in the terms and conditions of certain securities including alteration of the principal amount or any interest payable on debt instruments, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. As a result, the exercise of the Spanish Bail-in Power and/or Non-Viability Loss Absorption with respect to such securities or the taking by an authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of holders of such securities, the market price or value or trading behavior of our securities and/or the ability of the Bank to satisfy its obligations under any such securities.

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

This uncertainty may adversely affect the value of the unsecured debt securities, subordinated obligations and shares issued by us. The price and trading behavior of such securities may be affected by the threat of a possible exercise of any power under Law 11/2015 and/or the SRM Regulation (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Spanish Resolution Authority may exercise any such powers without providing any advance notice to the holders of affected securities.

In addition, the EBA has published certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines. These standards and guidelines could be potentially relevant to determining when or how a Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power and impose a Non-Viability Loss Absorption. Included in this are guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments, and on the rate of conversion of debt to equity or other securities or obligations in any bail-in. No assurance can be given that these standards and guidelines will not be detrimental to the rights under, and the value of, unsecured debt securities, subordinated obligations and shares issued by us.

Any failure by the Bank and/or the Group to comply with its MREL could have a material adverse effect on the Bank's business, financial condition and results of operations

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

MREL came into force on January 1, 2016. However, the EBA has recognized the impact which this requirement may have on banks' funding structures and costs, and the MREL Delegated Regulation states that the resolution authorities shall determine an appropriate transitional period but that this shall be as short as possible.

In addition, as a result of the EU Banking Reforms, Directive (EU) 2017/2399 of the European Parliament and of the Council of December 12, 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy was approved with the aim to harmonize national laws on insolvency and recovery and resolution of credit institutions and investment firms, by creating a new credit class of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities. In this regard, on June 23, 2017 Royal Decree-Law 11/2017 of June 23 on urgent measures in financial matters (*Real Decreto-ley 11/2017, de 23 de junio, de medidas urgentes en materia financiera*) introduced into Spanish law the new class of "non-preferred" senior debt.

On November 9, 2015, the FSB published its final Total Loss-Absorbing Capacity ("**TLAC**") Principles and Term Sheet (the "**TLAC Principles and Term Sheet**"), proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior-ranking liabilities, such as guaranteed insured deposits, and forming a new standard for G-SIBs. The TLAC Principles and Term Sheet contain a set of principles on loss-absorbing and recapitalization capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The TLAC Principles and Term Sheet require a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (i) 16% of risk-weighted assets as of January 1, 2019 and 18% as of January 1, 2022, and (ii) 6% of the Basel III Tier 1 leverage ratio exposure measured as of January 1, 2019, and 6.75% as of January 1, 2022. The Bank is no longer classified as a G-SIB by the FSB with effect from January 1, 2017. However, if the Bank were to be so classified in the future or if TLAC requirements as set out below are adopted and implemented in Spain and extended to non-G-SIBs through the imposition of requirements similar to MREL as set out below, then this could create additional minimum requirements for the Bank.

Following the publication of the Single Resolution Board's ("**SRB**") initial policy statement on MREL in November 2018, the SRB published on January 16, 2019 its policy statement on MREL applicable to the second wave of resolution plans (which are those applicable to the most complex banking groups, including BBVA). This policy is based on the current regulatory framework but is also perceived to be preparing the ground for the implementation of the EU Banking Reforms.

In addition, the EU Banking Reforms establish some exemptions which could allow outstanding senior debt instruments to be used to comply with MREL. However, there is uncertainty regarding the final form of the EU Banking Reforms insofar as such eligibility is concerned and how those regulations and exemptions are to be interpreted and applied. This uncertainty may impact upon the ability of BBVA to comply with its MREL (at both individual and consolidated levels (together, "**MRELs**")) by the relevant deadline. In this regard, the EBA submitted on December 14, 2016 its final report on the implementation and design of the MREL framework (the "**EBA MREL Report**"), which contains a number of recommendations to amend the current MREL framework. Additionally, the EU Banking Reforms contain the legislative proposal of the European Commission for the amendment of the MREL framework and the implementation of the TLAC standards. The EU Banking Reforms propose the amendment of a number of aspects of the MREL framework to align it with the TLAC standards included in the TLAC Principles and Term Sheet. To maintain coherence between the MREL rules applicable to G-SIBs and those applicable to non-G-SIBs, the EU Banking Reforms also propose a number of changes to the MREL rules applicable to non-G-SIBs. While the EU Banking Reforms propose for minimum harmonized or "Pillar 1" MRELs for G-SIBs, in the case of non-G-SIBs, it is proposed that MRELs will be imposed on a bank-specific basis. For G-SIBs, it is also proposed that a supplementary or "Pillar 2" MRELs may be further imposed on a bank-specific basis. The EU Banking Reforms further provide for the resolution authorities to give guidance to an institution to have own funds and eligible liabilities in excess of the requisite levels for certain purposes.

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

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

Further, as outlined in the EBA MREL Report, the EBA's recommendation is that an institution will not be able to use the same CET 1 capital to meet both MREL and the combined buffer requirements. In addition, the EU Banking Reforms provide that, in the case of the own funds of an institution that may otherwise contribute to the combined buffer requirement where there is any shortfall in MREL, this will be considered as a failure to meet the combined buffer requirement such that those own funds will automatically be used instead to meet that institution's MRELs and will no longer count towards its combined buffer requirement. Accordingly, this could trigger a limit on discretionary payments (see "*—Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*").

Additionally, if the FROB, the SRM or a Relevant Spanish Resolution Authority finds that there could exist any obstacles to resolvability by the Bank and/or the Group, a higher MREL could be imposed.

Moreover, with respect to the EU Banking Reforms, there are uncertainties concerning how the subsidiaries of the Group would be treated in determining the resolution group of the Bank and the applicable MRELs, which may lead to a situation where the consolidated MREL of the Bank would not fully reflect its multiple-point-of-entry resolution strategy.

On May 23, 2018, the Bank announced that it had received notification from the Bank of Spain regarding its MREL, as determined by the SRB. The Bank's MREL has been set at 15.08% of the total liabilities and own funds of the Bank's resolution group at a sub-consolidated level as of December 31, 2016, which corresponds to 28.04% of the risk-weighted assets of the Bank's resolution group as of December 31, 2016, and must be met by January 1, 2020. Pursuant to the Group's multiple-point-of-entry resolution strategy as established by the SRB, the Bank's resolution group consists of the Bank and its subsidiaries which belong to the same European resolution group. As of December 31, 2016, the total liabilities and own funds of the Bank's resolution group amounted to €385,647 million, of which the total liabilities and own funds of the Bank comprised approximately 95%, and the risk-weighted assets of the Bank's resolution group amounted to €207,362 million.

According to our own estimates, we believe that the current own funds and eligible liabilities structure of the Bank's resolution group is in line with the above MREL. However, the Bank's MREL is subject to change and no assurance can be given that the Bank may not be subject to a higher MREL at any time in the future.

The EU Banking Reforms further include, as part of MREL, a new subordination requirement of eligible instruments for G-SIBs and "top tier" banks (including the Bank) that will be determined according to their systemic importance, involving a minimum "Pillar 1" subordination requirement. This "Pillar 1" subordination requirement shall be satisfied with own funds and other eligible MREL instruments (which MREL instruments may not for these purposes be senior debt instruments and only MREL instruments constituting "non-preferred" senior debt under the new insolvency hierarchy introduced into Spain will be eligible for compliance with the subordination requirement). For "top tier" banks such as the Bank, this "Pillar 1" subordination requirement has been determined as the higher of 13.5% of the bank's risk weighted assets ("**RWAs**") and 5% of its leverage exposure. Resolution authorities may also impose further "Pillar 2" subordination requirements, which would be determined on a case-by-case basis but at a minimum level equal to the lower of 8% of a bank's total liabilities and own funds and 27% of its RWAs.

Any failure or perceived failure by the Bank and/or the Group to comply with its MREL (including the subordination requirement) may have a material adverse effect on the Bank's business, financial conditions and results of operations and could result in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of dividends and interest or distributions on Additional Tier 1 instruments. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement", the MRELs once implemented in Spain and the restrictions or prohibitions on discretionary payments.

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

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in securities issued by the Group or other issuers (including secondary market transactions) in certain circumstances.

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

However, the FTT proposal remains subject to negotiation among the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and participating Member States may decide not to participate.

While the final outcome of the Commission's Proposal continues to be uncertain, the Spanish council of ministers approved during a meeting held on January 18, 2019 the Bill on the Financial Transaction Tax (the "**Spanish FTT Bill**"), which is based in part on the Commission's Proposal. The Spanish FTT Bill introduces a new indirect tax, amounting to 0.2%, to be charged on acquisitions of shares in Spanish companies, regardless of the tax residence of the participants in such transactions, provided that such companies are listed and their respective market capitalization is above €1,000 million. If the Spanish FTT Bill becomes law and subsequently the FTT is approved under a Directive, the Spanish FTT Law should be adapted to the Directive's content.

Moreover, Law 18/2014, of October 15, 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 the Bank operates.

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

Contributions for assisting in the future recovery and resolution of the Spanish banking sector may have a material adverse effect on the Bank's business, financial condition and results of operations

Law 11/2015 and RD 1012/2015 require Spanish credit institutions, including BBVA, to make at least an annual ordinary contribution to the National Resolution Fund (*Fondo de Resolución Nacional*), payable on request of the FROB. The total amount of contributions to be made to the National Resolution Fund by all Spanish banking entities must equal at least 1% of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos de Entidades de Crédito*) by December 31, 2024. The contribution will be adjusted to the risk profile of each institution in accordance with the criteria set out in Council Implementing Regulation (EU) 2015/81 of December 19, 2014 and RD 1012/2015. The FROB may, in addition, collect extraordinary contributions.

Furthermore, Law 11/2015 also provides for an additional charge (*tasa*) which shall be used to further fund the activities of the FROB, in its capacity as a resolution authority, which charge shall equal 2.5% of the above annual ordinary contribution to be made to the National Resolution Fund.

Moreover, Commission Delegated Regulation (EU) 2017/2361 of September 14, 2017 establishes the system of contributions to the administrative expenditures of the Single Resolution Board, to be paid by credit institutions in the EU. In addition, since 2016, the Bank has been required to make contributions directly to the EU Single Resolution Fund, once the National Resolution Fund has been integrated into it. See "*—Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on the Bank's business, financial condition and results of operations*".

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

Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on the Bank'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 SRM.

The SSM is intended to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Framework Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular the direct supervision of the largest European banks (including the Bank), on November 4, 2014.

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 has resulted in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that form part of the SSM. Several steps have already been taken in this regard, such as (i) the publication of the Supervisory Guidelines, (ii) the approval of the SSM Framework Regulation, (iii) the approval of Regulation (EU) 2016/445 of the ECB of March 14, 2016 on the exercise of options and discretions available in European Union law, and (iv) a set of guidelines on the application of CRR's national options and discretions. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. The SRM Regulation 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 SRB started operating on January 1, 2015 and fully assumed its resolution powers on January 1, 2016. The Single Resolution Fund has also been in place since January 1, 2016, 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 total liabilities including own funds 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 toward 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 banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority may have a material effect 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, which will impose new constraints on the structure of European banks. The proposal is aimed 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.

There can be no assurance that regulatory developments related to the EU fiscal and banking union, and initiatives undertaken at the EU level, will not have a material adverse effect on the Bank's business, financial condition and results of operations.

The Group's anti-money laundering and anti-terrorism programs 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 anti-money laundering program (which includes, among other elements, policies, procedures, technical infrastructure, independent reviews and training activities) is sufficient to comply with applicable rules and regulations, it cannot guarantee that its anti-money laundering and anti-terrorism financing programs will not be circumvented or otherwise 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. Further, the Group engages in investigations relating to alleged or suspected violations of anti-money laundering or anti-terrorism rules and regulations from time to time and any such investigations or any related proceedings could be time-consuming and costly.

The Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs

The Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, its operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanction programs, including those administered by the United Nations, the EU and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Group's business, the Group may directly or indirectly, through third parties, deal with entities the employees of which are considered government officials. In addition, economic sanctions programs restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has adopted internal policies, procedures, systems and other mitigating measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies, procedures, systems and other mitigating measures will be sufficient or that its employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which it or they may be ultimately held responsible. The Group engages in investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations from time to time and such investigations or any related proceedings could be time-consuming and costly and their outcomes difficult to predict. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Group, limits being placed on the Group's activities, the Group's authorizations and licenses being revoked, damage to the Group's reputation and other consequences that could have a material adverse effect on the Group's business, results of operations and financial condition.

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

The Bank's operations are subject to regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in the various jurisdictions outside Spain where it operates. Regulations in certain jurisdictions where the Bank operates differ in a number of material respects from equivalent regulations in Spain. For example, local regulations may require the Bank's subsidiaries and affiliates to meet capital requirements that are different from those applicable to the Bank as a Spanish bank, they may prohibit certain activities permitted to be undertaken by the Bank in Spain or they may require certain approvals to be obtained in connection with such subsidiaries and affiliates' activities. Changes in regulations may have a material effect on the Group's business and operations, particularly changes affecting Mexico, the United States or Turkey, which are the Group's most significant jurisdictions by assets other than Spain.

Furthermore, 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 the Bank'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. Any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

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

BBVA and its subsidiaries are involved in a number of legal and regulatory actions and proceedings, including legal claims and proceedings, civil and criminal regulatory proceedings, governmental investigations and proceedings, tax proceedings and other proceedings, in jurisdictions around the world, the final outcome of which is unpredictable, including in the case of legal proceedings where claimants seek unspecified or undeterminable damages, or where the cases argue novel legal theories, involve a large number of parties or are at early stages of discovery or investigation.

Legal and regulatory actions and proceedings against financial institutions have been on the rise in Spain and other jurisdictions where the Group operates over the last decade, fueled in part by certain recent consumer-friendly rulings. In certain instances, these rulings were as a result of appeals made to national or supranational courts (such as the European Court of Justice). Legal and regulatory actions and proceedings faced by the Group include legal proceedings brought by clients before Spanish and European courts in relation to mortgage loan agreements in which claimants seek that certain provisions of such agreements be declared null and void (including provisions concerning fees and other expenses, early termination, the use of certain interest rate indexes and the use of "floor" clauses limiting the interest rates in mortgages loans). Legal and regulatory actions and proceedings faced by other financial institutions regarding these or other matters, especially if such actions or proceedings result in consumer-friendly rulings, could also adversely affect the Group. The Group is also involved in antitrust proceedings and investigations in certain countries which could, among other matters, give rise to sanctions or lead to lawsuits from clients or other persons. For example, in April 2017, the Mexican Federal Economic Competition Commission (*Comisión Federal de Competencia Económica* or the "**COFECE**") launched an antitrust investigation relating to alleged monopolistic practices of certain financial institutions, including BBVA's subsidiary BBVA Bancomer, in connection with transactions in Mexican government bonds. The Mexican Banking and Securities Exchange Commission (*Comisión Nacional Bancaria y de Valores*) also initiated a separate investigation regarding this matter, which resulted in certain fines being initially imposed, insignificant in amount, which BBVA Bancomer has challenged. In March 2018, BBVA Bancomer and certain other affiliates of the Group were named as defendants in a putative class action lawsuit filed in the United States District Court for the Southern District of New York, alleging that the defendant banks and their named subsidiaries engaged in collusion with respect to the purchase and sale of Mexican government bonds. The plaintiffs seek unspecified monetary relief.

The outcome of legal and regulatory actions and proceedings, both those to which the Group is currently exposed and any others which may arise in the future, including actions and proceedings related to former subsidiaries of the Group or in respect of which the Group may have indemnification obligations, is difficult to predict. However, in connection with such matters the Group may incur significant expense, regardless of the ultimate outcome, and any such matters could expose the Group to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional litigation; criminal prosecution in certain circumstances; regulatory restrictions on the Group's business operations including the withdrawal of authorizations; changes in business practices; increased regulatory compliance requirements; the suspension of operations; public reprimands; the loss of significant assets or business; a negative effect on the Group's reputation; loss of confidence by investors, counterparties, customers, clients, supervisors and other stakeholders; risk of credit rating agency downgrades; a potential negative impact on the availability and cost of funding and liquidity; and the dismissal or resignation of key individuals. There is also a risk that the outcome of any legal or regulatory actions or proceedings in which the Group is involved may give rise to changes in laws or regulations as part of a wider response by relevant lawmakers and regulators. A decision in any matter, either against the Group or another financial institution facing similar claims, could lead to further claims against the Group. In addition, responding to the demands of litigation may divert management's time and attention and the Group's financial resources. Moreover, where provisions have already been taken in connection with an action or proceeding, such provisions could prove to be inadequate.

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

We may be affected by actions that are incompatible with our ethics and compliance standards, and by our failure to timely detect or remedy any such actions

Some of our management and/or employees and/or persons doing business with us may engage in activities that are incompatible with our ethics and compliance standards. Although we have adopted measures designed to identify, monitor and mitigate such actions, and remediate them when we become aware of them, we are subject to the risk that our management and/or employees and/or persons doing business with us may engage in fraudulent activity, corruption or bribery, circumvent or override our internal controls and procedures or misappropriate or manipulate our assets for their personal or business advantage to our detriment.

Our business, including relationships with third parties, is guided by ethical principles. We have adopted a Code of Conduct, applicable to all companies and persons which form part of the Group, and a number of internal policies designed to guide our management and employees and reinforce our values and rules for ethical behavior and professional conduct. For further information on our Code of Conduct, see "*Item 16B.Code of Ethics*". However, we are unable to ensure that all of our management and employees, more than 125,000 people, or persons doing business with us comply at all times with our ethical principles. Acts of misconduct by any employee, and particularly by senior management, could erode trust and confidence and damage the Group's reputation among existing and potential clients and other stakeholders. Negative public opinion could result from actual or alleged conduct by Group entities in any number of activities or circumstances, including operations, employment-related offenses such as sexual harassment and discrimination, regulatory compliance, the use and protection of data and systems, and the satisfaction of client expectations, and from actions taken by regulators or others in response to such conduct.

As of the date of this Annual Report, we are conducting an investigation, led by PricewaterhouseCoopers through the Bank's external legal counsel Garrigues, along with Uría Menéndez, regarding allegations of improper activity related to our relationship with Grupo Cenyt which may have violated our ethical standards and applicable governance or regulatory obligations. Governmental authorities are also investigating this matter. We are carrying out our investigation to protect the Group's interests and in connection therewith are cooperating with governmental authorities and our supervisors. It is not possible at this time to predict the scope or duration of our investigation or any investigations by governmental authorities, or their likely outcomes.

Any failure, whether real or perceived, to follow our ethical principles or to comply with applicable governance or regulatory obligations could harm our reputation, subject us to additional regulatory scrutiny, or otherwise adversely affect the Group's business, financial condition and results of operations.

Liquidity and Financial Risks

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

Liquidity and funding continue 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 or otherwise, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be affected.

The Bank'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 fulfil 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 the Bank (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 business, financial condition and results of operations.

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, cause the Group to take other actions or even lead to the exercise of any Spanish Bail-in Power

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 administrative initiatives, including the exercise of any Spanish Bail-in Power and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. The introduction of a national tax on outstanding deposits could adversely affect the Group's activities, especially 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, or where such withdrawal specifically affects the Group, 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. Furthermore, in such an event, the Bank could be subject to the adoption of an early intervention or, ultimately, resolution measure by a Relevant Spanish Resolution Authority pursuant to Law 11/2015 (including, among others but without limitation, the Spanish Bail-in Power and/or Non-Viability Loss Absorption). See "*—Legal, Regulatory and Compliance Risks—Bail-in and write-down powers under the BRRD and the SRM Regulation may adversely affect our business and the value of any securities we may issue*" below.

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, and could be subject to the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 (including, among others but without limitation, the Spanish Bail-in Power and/or Non-Viability Loss Absorption).

Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities

The liquidity coverage ratio ("**LCR**") is a quantitative liquidity standard developed by the BCBS to ensure that those banking organizations to which this standard applies have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS. The LCR has been progressively implemented since 2015 in accordance with the CRR, with banks having had to fully comply (100%) with such ratio since January 1, 2018. As of December 31, 2018, the LCR of the Group was 127%.

The BCBS's net stable funding ratio ("**NSFR**") has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplated that the NSFR, including any revisions, was to be implemented by member countries as a minimum standard by January 1, 2018, with no phase-in. While the NSFR has not yet been introduced, the EU Banking Reforms propose the introduction of a harmonized binding requirement for the NSFR across the EU.

Various elements of the LCR and the NSFR, as they are implemented by national banking regulators and complied with by the Bank, may cause changes that affect the profitability of business activities and require changes to certain business practices, which could expose the Bank to additional costs (including increased compliance costs) or have a material adverse effect on the Bank's business, financial condition or results of operations. These changes may also cause the Bank to invest significant management attention and resources to make any necessary changes.

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 the Bank’s results of operations. The Bank 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 are key risk factors. 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, including cases of negative reference 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 its consolidated balance sheets included in the Consolidated Financial Statements. For more information, please see Note 25 to our Consolidated Financial Statements.

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

The Bank and certain of its subsidiaries are dependent on their credit ratings and any reduction of their credit ratings could materially and adversely affect the Group's business, financial condition and results of operations

The Bank and certain of its subsidiaries are rated by various credit rating agencies. The credit ratings of the Bank and such subsidiaries are an assessment by rating agencies of their ability to pay their obligations when due. Any actual or anticipated decline in the Bank's or such subsidiaries' 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), or 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 or such subsidiaries' 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. See "*—Macroeconomic Risks—Any decline in the Kingdom of Spain's sovereign credit ratings could 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 has created increased risk in 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 and the profitability of the loans more vulnerable to interest rate decreases. 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, reducing the number of new products that the Group may otherwise be able to sell to them and limiting the Group's ability to attract new customers who satisfy 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, the Bank's ability to pay dividends, to the extent the Bank 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 is 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, the Bank'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 subsidiaries' creditors, including trade creditors. The Group also has to comply with increased capital requirements, which could result in the imposition of restrictions or prohibitions on discretionary payments including the payment of dividends and other distributions to the Bank by its subsidiaries (see "*—Legal, Regulatory and Compliance Risks—Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*").

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 with new business models likely to be developed in coming years whose impact is unforeseeable. 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, e-commerce businesses, department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies, and public debt.

In recent years, the financial services sector has experienced a significant transformation, closely linked to the development of the internet and mobile technologies. Part of that transformation involves the entrance of new players, such as non-bank digital providers that compete (and cooperate) between them and with banks in most of the areas of financial services as well as large digital players such as Amazon, Google, Facebook or Apple, who have also started to offer financial services (mainly, payments and credit) ancillary to their core business. However, as of the date of this Annual Report, there is an uneven playing field between banks and such non-bank players. For example, banking groups are subject to prudential regulations that have implications for most of their businesses, including those in which they compete with non-bank players that are only subject to activity-specific regulations or benefit from regulatory uncertainty. In addition, fintech activities are generally subject to additional rules on internal governance when they are carried out within a banking group. For instance, the CRD IV Directive limits the ratio between the variable and the fixed salary that financial institutions can pay to certain staff members identified as risk takers. This places banking groups such as the Group at a competitive disadvantage for attracting and retaining digital talent and for retaining the founders and management teams of acquired start-ups.

Existing loopholes in the regulatory framework are another source of uneven playing fields between banks and non-bank players. Some new services or business models are not yet covered under existing regulations. In these cases, asymmetries between players arise since regulated providers often face obstacles to engage in unregulated activities. For instance, the EBA has recommended to competent authorities that they prevent credit institutions, payment institutions and e-money institutions from buying, holding or selling virtual currencies.

The Group’s future success may depend, in part, on its ability to use technology to provide products and services that provide convenience to customers. Despite the technological capabilities the Group has been developing and its commitment to digitalization, as a result of the uneven playing field referred to above or for other reasons, the Group may not be able to effectively implement new technology-driven products and services or be successful in marketing or delivering these products and services to its customers, which would adversely affect the Group’s business, financial condition and results of operations.

In addition, companies offering new applications and financial-related services based on artificial intelligence are becoming more competitive. The often lower cost and higher processing speed of these new applications and services can be especially attractive to technologically-adept purchasers. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, machine learning and other advances outside of the Group’s control. If the Group is not able to successfully keep pace with these technological advances, its business may be adversely affected.

In addition, the project of achieving a European capital markets union was launched by the European Commission as a plan to mobilize capital in Europe, being one of its main objectives to provide businesses with a greater choice of funding at lower costs and to offer new opportunities for savers and investors. These objectives are expected to be achieved by developing a more diversified financial system complementing bank financing with deep and developed capital markets, which may adversely affect the Group’s business, financial condition 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 because either the Group is not indemnified for such claims or the indemnification is insufficient. Further, in the case of a divestiture, the Group may be required to indemnify the buyer in respect of certain matters, including claims against the divested entity or business. Any of the foregoing, could cause the Group to incur significant expenses and could materially adversely affect its business, financial condition and results of operations.

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, Turkey and Argentina, which represented 14.3%, 12.1%, 9.8% and 1.2% of the Group's assets as at December 31, 2018, respectively.

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 the Bank'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, political risk which may be particular to foreign investors and limitations on the distribution of dividends. As of December 31, 2018, approximately 45.4% of the Group's assets and approximately 44.6% of its liabilities were denominated in currencies other than euro.

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 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.

Reporting and Other Financial and Operational Risks

Weaknesses or failures in the Group's internal or outsourced processes, systems and security could materially adversely affect its business, financial condition and results of operations 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 by Group employees or 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. Furthermore, the Group has outsourced certain functions (such as the storage of certain information) to third parties and, as a result, it is dependent on the adequacy of the internal processes, systems and security measures of such third parties. Any actual or perceived inadequacies, weaknesses or failures in the Group's systems, processes or security or the systems, processes or security of such third parties could damage the Group's reputation (including harming customer confidence) or could otherwise 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 the Bank, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned.

Furthermore, the Group is under continuous threat of loss due to cyber-attacks, especially as it continues to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that it faces are e-fraud and breach of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customers' or the Group's accounts. A breach of sensitive customer data, such as account numbers, could present significant reputational impact and significant legal and/or regulatory costs to the Group.

Over the past few years, there have been a series of distributed denial of service attacks on financial services companies. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks have not been conducted to steal financial data, but meant to interrupt or suspend a company's internet service. While these events may not result in a breach of client data and account information, the attacks can adversely affect the performance of a company's website and in some instances have prevented customers from accessing a company's website. Distributed denial of service attacks, hacking and identity theft risks could cause serious reputational harm. Cyber threats are rapidly evolving and the Group may not be able to anticipate or prevent all such attacks. The Group's risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, its plans to continue to provide internet banking and mobile banking channels, and its plans to develop additional remote connectivity solutions to serve its customers. The Group may incur increasing costs in an effort to minimize these risks and could be held liable for any security breach or loss.

Additionally, fraud risk may increase as the Group offers more products online or through mobile channels.

In addition to costs that may be incurred as a result of any failure of its IT systems, the Group could face fines from bank regulators if it fails to comply with applicable banking or reporting regulations as a result of any such IT failure or otherwise.

Any of the above risks could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces security risks, including denial of service attacks, hacking, social engineering attacks targeting its partners and customers, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect its business or reputation, and create significant legal and financial exposure

The Group's computer systems and network infrastructure and those of third parties, on which it is highly dependent, are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. The Group's business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in its computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access the Group's network, products and services, its customers and other third parties may use personal mobile devices or computing devices that are outside of its network environment and are subject to their own cybersecurity risks.

The Group, its customers, regulators and other third parties, including other financial services institutions and companies engaged in data processing, have been subject to, and are likely to continue to be the target of, cyber-attacks. These cyber-attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in the Group's systems or the systems of third parties or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Group, its employees, its customers or of third parties, damage its systems or otherwise materially disrupt the Group's or its customers' or other third parties' network access or business operations. As cyber threats continue to evolve, the Group may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of the Group's systems and implement controls, processes, policies and other protective measures, the Group may not be able to anticipate all security breaches, nor may it be able to implement guaranteed preventive measures against such security breaches and the measures implemented by the Group may not be sufficient. Cyber threats are rapidly evolving and the Group may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as the Group continues to increase its mobile-payment and other internet-based product offerings and expand its internal usage of web-based products and applications. In addition, cybersecurity risks have significantly increased in recent years in part due to the increased sophistication and activities of organized crime affiliates, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks and "spear phishing" attacks are becoming more sophisticated and are extremely difficult to prevent. In such an attack, an attacker will attempt to fraudulently induce colleagues, customers or other users of the Group's systems to disclose sensitive information in order to gain access to its data or that of its clients. Persistent attackers may succeed in penetrating the Group's defenses given enough resources, time, and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. The risk of a security breach caused by a cyber-attack at a vendor or by unauthorized vendor access has also increased in recent years. Additionally, the existence of cyber-attacks or security breaches at third-party vendors with access to the Group's data may not be disclosed to it in a timely manner.

The Group also faces indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom it does business or upon whom it relies to facilitate or enable its business activities, including, for example, financial counterparties, regulators and providers of critical infrastructure such as internet access and electrical power. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber-attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including the Group. This consolidation, interconnectivity and complexity increase the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber-attack or other information or security breach, termination or constraint could, among other things, adversely affect the Group's ability to effect transactions, service its clients, manage its exposure to risk or expand its business.

Cyber-attacks or other information or security breaches, whether directed at the Group or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber-attack on its systems has been successful, whether or not this perception is correct, may damage the Group's reputation with customers and third parties with whom it does business. Hacking of personal information and identity theft risks, in particular, could cause serious reputational harm. A successful penetration or circumvention of system security could cause the Group serious negative consequences, including loss of customers and business opportunities, significant business disruption to its operations and business, misappropriation or destruction of its confidential information and/or that of its customers, or damage to the Group's or its customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in the Group's security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact its results of operations, liquidity and financial condition.

The Group could be the subject of misinformation

The Group may be the subject of intentional misinformation and misrepresentations deliberately propagated to harm the Group's reputation or for other deceitful purposes. Such misinformation could also be propagated by profiteering short sellers seeking to gain an illegal market advantage by spreading false information concerning the Group. The Group cannot assure that it will effectively neutralize and contain any false information that may be propagated regarding the Group, which could have an adverse effect on the Group's business, financial condition and results of operations.

BBVA's 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 BBVA is subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of foreign private issuers such as BBVA under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, BBVA maintains its financial accounts and records and prepares its financial statements in compliance with IFRS-IASB and in accordance with EU-IFRS required to be applied under the Bank of Spain's Circular 4/2017, which replaced the Bank of Spain's Circular 4/2004 for financial statements relating to periods ended January 1, 2018 and thereafter, 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.