D. Risk Factors

BUSINESS RISKS

Inherent Business Risks

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

The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant effect on the Group's earnings. Adverse changes in the credit quality of the Group's borrowers and counterparties or collateral, or in their behavior or businesses, may reduce the value of the Group's assets, and materially increase the Group's write-downs and loss allowances. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer, corporate or government spending, 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 household 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.

The total maximum credit risk exposure (calculated as set forth in Note 7.1.2 to the Consolidated Financial Statements) was €809,786 million, €763,082 million and €763,165 million as of December 31, 2019, 2018 and 2017, respectively. Total non-performing or impaired financial assets and contingent risk (calculated as set forth in Note 7.1.5 to the Consolidated Financial Statements) amounted to €16,770 million, €17,134 million and €20,590 million as of December 31, 2019, 2018 and 2017, respectively. The Group had a 3.79% non-performing asset ratio (calculated as indicated herein) as of December 31, 2019, compared to 3.94% and 4.49% as of December 31, 2018 and 2017, respectively. The Group's non-performing loan coverage ratio was 77% as of December 31, 2019, compared to 73% and 65% as of December 31, 2018 and 2017, respectively.

Non-performing or low credit quality loans have in the past and can continue to negatively affect the Group's results of operations. The Group 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 there is a risk of increased default rates if interest rates start to rise. The timing, quantum and pace of any default rate 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, including 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 based on its classifications and estimates of possible changes in credit quality. 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. There is a risk in making such assessments 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.

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, any 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 plans.

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 from their effect on 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 the Group's loans referenced to variable interest rates makes borrowers' capacity to repay such loans more vulnerable to changes in interest rates and the profitability of the loans more vulnerable to interest rate decreases. Loans and advances to customers maturing in more than one year and bearing floating interest rates made up 59%, 62% and 62% of such transactions as of December 31, 2019, 2018 and 2017, respectively. See Note 14.3 to the Consolidated Financial Statements. 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. See Note 7.3.1 to the Consolidated Financial Statements for further information.

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, well-capitalized banks with which the Group must now compete.

The Group also faces competition from non-bank competitors, such as BigTech firms, financial-technology (or "**Fintech**") companies, payment platforms, e-commerce businesses, large department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies and –with respect to its deposits- public and corporate debt securities. According to the Financial Stability Board ("**FSB**"), non-bank financial intermediaries managed assets totaling $184.3 trillion as of December 2017 and are experiencing growth exceeding that of the commercial banking business. BigTech firms are already engaged in a wide range of financial activities. This is particularly the case in China, where BigTech firms have market capitalizations comparable to those of the world's largest financial groups, and offer a wide range of financial services through subsidiaries. BigTech firms have also been expanding their provision of financial service in other emerging markets, notably in South East Asia, East Africa and Latin America. Such firms have achieved scale in financial services very rapidly, in part due to the large customer bases and high degree of brand recognition associated with their existing core technology businesses. Despite its recent growth, total credit extended by BigTech firms accounts for a small proportion of overall credit. Still, competition from non-bank competitors may significantly increase in the future.

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 those listed above. However, as of the date of this Annual Report, there is an uneven playing field between banks and 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 V Directive limits the ratio between the variable and 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 companies.

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 banks and non-bank players arise since banks, as regulated entities, often face obstacles to engage in unregulated activities.

The Group's future success depends, 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, one of its main objectives being 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.

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

The Group is significantly exposed to the real estate market, particularly in Spain. The Group's exposure to the construction and real estate industries in Spain amounted to €9,943 million, €11,045 million and €11,981 million as of December 31, 2019, 2018 and 2017, respectively, of which €2,649 million, €3,183 million and €5,224 million, respectively, related to construction and real estate development loans in Spain (representing 1.4%, 1.7% and 2.9%, respectively, of the Group's loans and advances to customers in Spain (excluding loans and advances to the public sector) and 0.4%, 0.5% and 0.8%, respectively, of the Group's consolidated assets, as of such dates). The Group is exposed to the real estate market due to the fact that real estate assets secure many of its outstanding loans, it holds a significant amount of real estate assets on its balance sheet, principally as a result of foreclosures, and it holds stakes in real estate companies such as Metrovacesa, S.A. and Divarian Propiedad, S.A. Total real estate exposure in Spain, including development loans, foreclosed assets and other real estate-related assets had a coverage ratio of 52% as of December 31, 2019 (55% as of December 31, 2018). For additional information, see item (b) of Appendix IX (Additional information on risk concentration) of our Consolidated Financial Statements.

While the demand for homes and real estate loans has been on the rise in recent years, growth in the sector seems to be stagnating. Any deterioration of real estate prices could have a material adverse effect on the Group's business, financial condition and results of operations. For example, a decline in prices for real estate assets in Spain would reduce the value of the real estate portfolio that serves to secure its real estate loans and credit and, consequently, any defaults would increase the amount of expected losses relating to those loans and credit facilities.

The Group faces risks related to its acquisitions and divestitures

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

The Group’s mergers and acquisitions activity (M&A) involves divestitures from certain businesses and the strengthening of other business areas through acquisitions. The Group may not complete these transactions in a timely manner, on a cost-effective basis or at all and, if completed, they may not obtain the expected results. In addition, if completed, the Group’s results of operations could be negatively affected by divestiture or acquisition-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, divestitures or acquisitions, including claims from terminated employees, customers or third parties, and the Group may be liable for potential or existing litigation and claims related to an acquired business, including because either the Group is not indemnified for such claims or the indemnification is insufficient. Further, in the case of a divestiture, the Group may be required to indemnify the buyer in respect of certain matters, including claims against the divested entity or business.

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

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

Risks Deriving from our Geographic Distribution

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

The Group operates commercial banks and insurance and other financial services companies in many countries and its overall success as a global business depends on its ability to succeed in differing economic, social and political conditions and in environments of differing legislative and regulatory requirements (including, among others, laws and regulations regarding the repatriation of funds or the nationalization or expropriation of assets). The Group is particularly sensitive to developments in Mexico, the United States, Turkey and Argentina, which represented 15.6%, 12.7%, 9.2% and 1.0% of the Group’s assets as of December 31, 2019, respectively (14.3%, 12.1%, 9.8% and 1.2% of the Group’s assets as of December 31, 2018, respectively).

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

- weak economic growth or recession in the countries where it operates, poor employment growth and structural challenges constraining employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect the household income levels of the Group’s retail customers and the recoverability of the Group’s retail loans, resulting in increased loan loss allowances and asset impairments;
- declines in inflation or even deflation, primarily in Europe, or very high inflation rates, such as in 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;
- an environment of very low interest rates 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;
- adverse developments in the real estate market, especially in Spain, Mexico, the United States and Turkey, given the Group’s exposures to those markets;
- 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 net oil consuming areas, such as Spain or Turkey, to which the Group is also materially exposed;

- the impact of the coronavirus disease (COVID-19), which may adversely affect, among other matters, factory output, supply chains, travel and tourism, investor confidence and consumer spending;
- changes in the institutional or political environment in the countries where the Group operates, which could evolve into sudden and intense economic downturns and/or regulatory changes; for example, the potential exit by an EU Member State from the European Monetary Union, which could materially adversely affect the European and global economies, 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; and
- a government default on, or restructuring of, sovereign debt, which could affect the Group primarily in two ways: directly, through portfolio losses (the Group's exposure to government debt relates mainly to Spain, Mexico, the United States and Turkey, which together amounted to €116,006 million, equivalent to 16.6% of the Group's consolidated total assets, as of December 31, 2019); and indirectly, through instabilities that a default on, or restructuring of, sovereign 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'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 deterioration of economic conditions or the institutional environment 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.

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's international operations 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. There is no guarantee that the Group will be successful in developing and implementing policies and strategies in each country in which it operates, some of which have experienced significant financial, political and social volatility in recent decades.

As of December 31, 2019, approximately 48.1% of the Group's assets and approximately 41.9% of its liabilities were denominated in currencies other than the euro. See Note 7.3.2 to the Consolidated Financial Statements for information on our hedging policy for exchange rate risk and Appendix VII thereof for additional information on our exposure to such risk.

The Group is particularly sensitive to developments in Mexico, Turkey and Argentina, which represented 15.6%, 12.7%, 9.2% and 1.0% of the Group's assets as of December 31, 2019, respectively (14.3%, 9.8% and 1.2% of the Group's assets as of December 31, 2018, respectively).

Certain risks affecting emerging markets and, in particular, Mexico, are discussed in greater detail below.

Emerging Markets

Emerging markets are generally subject to greater risk than more developed markets.

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 recent global economic growth, there are increasing risks of deterioration that might be triggered by a full-scale trade war, geopolitical events or changes in financial risk appetite, including as a result of a disordered deleveraging process in China or a sudden and unexpected downward growth adjustment in the United States. If global financial conditions deteriorate, the business, financial condition and results of operations of the Bank’s subsidiaries in emerging economies, especially in Latin America and Turkey, could be materially adversely affected.

Moreover, a financial crisis in a particular emerging market could adversely affect other emerging markets that are commercially or financially related and could impact the global economy. 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.

Argentina, where the Bank operates through BBVA Argentina, and Turkey, where the Bank operates through Garanti BBVA, 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 and 2019), rapidly-increasing interest rates and deteriorating economic conditions, adversely affecting our operations in those countries and the value of the related assets and liabilities when translated into euros. Hyperinflation in Argentina had a negative impact of €224 million on profit attributable to parent company for the year ended December 31, 2019 (€266 million for the year ended December 31, 2018). In addition, the Group’s activities in 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. Moreover, the repatriation of dividends from BBVA’s Venezuelan and Argentinean subsidiaries are subject to certain restrictions and there is no assurance that further restrictions will not be imposed.

Mexico

The Group may be affected by currency fluctuations, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico.

Economic conditions in Mexico are highly correlated with economic conditions in the United States due to the physical proximity and the high degree of economic activity between the two countries generally, including the trade historically facilitated by NAFTA. As a result, economic, political and regulatory conditions in the United States or in U.S. laws and policies governing foreign trade, immigration and foreign relations can have an impact on economic conditions in Mexico. Because the Mexican economy is heavily influenced by the U.S. economy, the termination of NAFTA and/or any development affecting the United States-Mexico-Canada Agreement (the “**USMCA**”) may adversely affect economic conditions in Mexico. As of the date of this Annual Report, USMCA still needs to be approved by the legislature of Canada. As such, uncertainty continues as to whether USMCA will be ratified in its current form, or at all.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions could have a significant impact on Mexican private sector entities in general, as well as on market conditions and prices. See “*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Mexico*” for information on certain recent changes to the financial sector regulation.

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.

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

The Group has historically carried out its lending activity mainly in Spain, which continues to be one of its primary business areas, such that as of December 31, 2019, total risk in financial instruments in Spain (calculated as set forth in item (c) of Appendix IX (Additional information on risk concentration) of our Consolidated Financial Statements) amounted to €229,564 million, equivalent to 37% of the Group’s total risk in financial instruments. After rapid economic growth until 2007, Spanish gross domestic product (“**GDP**”) contracted in the 2009-2010 and 2012-2013 periods. 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 each of 2015 and 2016, falling to 2.9%, 2.4% and 2.0% in 2017, 2018 and 2019, respectively, and unemployment decreased to 13.8% in 2019 from 15.3% in 2018. GDP growth is expected to remain around 2.0% in the coming years, although there are drivers of uncertainty abroad (for example, the possibility of a sudden halt to global growth, and the medium- to long-term consequences of the United Kingdom’s exit from the European Union) and in Spain (for example, the adoption of economic policies that deteriorate household and corporate confidence in the economy and/or financing costs) that could alter that trend, restricting employment growth and reducing levels of disposable income for households and companies. In addition, the Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main export market for Spanish goods and services. The Group’s loans and advances to customers in Spain totaled €197,058 million as of December 31, 2019, representing 50% of the total amount of loans and advances to customers included on the Group’s consolidated balance sheet. Our Spanish business includes extensive operations in Catalonia, which represented 18% of the Group’s assets in Spain as of December 31, 2019 (18% as of December 31, 2018). While social and political tensions have generally declined in recent months, if such tensions were to increase, this could lead to scenarios of uncertainty, volatility in capital markets and a deterioration of economic and financing conditions in Spain.

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

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

The United Kingdom’s exit from the European Union on January 31, 2020 (“**Brexit**”) has 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 on the future relationship between the United Kingdom and the European Union, including whether the two maintain close commercial ties after the United Kingdom exits the European Single Market, which is currently scheduled to occur on December 31, 2020.

The Group currently has a branch and 120 employees (as of December 31, 2019) in the United Kingdom, and engages in significant cross-border transactions with the United Kingdom, primarily with banks and other financial institutions. The Group held U.K. sovereign debt totaling €43 million as of December 31, 2019 and it currently holds a 39.02% interest in Atom Bank plc, a U.K. digital bank. In addition to the effects on the economy and European and global financial markets, the implementation of Brexit could harm or otherwise limit our capacity to carry out commercial transactions in the United Kingdom or in any other location. 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 may cause an economic slowdown, or even 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 United Kingdom’s future relationship with the European Union, 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.

FINANCIAL RISKS

See also "*—Business Risks—Inherent Business Risks—The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality, which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet*" and "*—Business Risks—Inherent Business Risks—The Group's business is particularly vulnerable to volatility in interest rates*".

Liquidity Risks

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 an exercise of the Spanish Bail-in Power

Historically, one of the Group's principal sources of funds has been savings and demand deposits. Customer deposits represented approximately 74% of the BBVA Group's total financial liabilities at amortized cost as of December 31, 2019, compared with 74% and 69% at December 31, 2018 and 2017, respectively. See Note 22 to the Consolidated Financial Statements.

Long-term time deposits may, under some circumstances, such as during periods of significant interest-rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of political actions, such as an exercise of the Spanish Bail-in Power (as defined below), expropriation or taxation of creditors' funds) or competition from investment funds or other products. 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. In that case, the Bank could be subject to early intervention or, ultimately, resolution measures implemented by the Spanish Resolution Authority in accordance with 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**") including, but not limited to, an exercise of the Spanish Bail-in Power (including a Non-Viability Loss Absorption (as defined below)). See "*—Legal, Regulatory, Tax and Reporting Risks—Regulatory 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*".

In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis in 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 the Spanish Resolution Authority pursuant to Law 11/2015 (including, but not limited to, the exercise of the Spanish Bail-in Power (including a Non-Viability Loss Absorption)).

"**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 defined herein), including, but not limited to (a) Law 11/2015, (b) RD 1012/2015 (as defined herein); and (c) the SRM Regulation (as defined herein), 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.

"**Non-Viability Loss Absorption**" means the power of the Spanish Resolution Authority to permanently write-down or convert capital instruments into equity at the point of non-viability of an institution.

"**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, and any other entity with the authority to exercise the Spanish Bail-in Power (including a Non-Viability Loss Absorption) from time to time.

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 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 Group'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 Group (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.

Other Financial Risks

The Bank and certain of its subsidiaries depend on their credit ratings and those assigned to Spanish sovereign debt. Any decline in these credit ratings could increase the cost of financing or require contracts to be terminated or obligate the Bank to provide additional guarantees under such contracts, which could adversely affect the Group's business, financial condition and results of operations

The banking business carried out by the Group involves obtaining financing from various sources. Credit ratings are essential to carrying out the banking business since the ability to obtain financing and its price depends in part on such ratings, as well as on other factors including market conditions and the interest rate environment.

The Bank and certain of its subsidiaries are rated by various credit rating agencies. The credit ratings assigned to the Bank and such subsidiaries are an assessment by rating agencies of their ability to pay their obligations when due, affecting the cost of financing and other conditions.

Rating agencies regularly review the Group's long-term debt ratings based on several factors including financial solvency and other circumstances that affect the financial sector in general. There is no assurance that the Group's current ratings or outlook will be maintained, and any actual or planned reduction in such ratings or outlook, whether to below investment grade or any other level, could increase the Group's financing cost and limit or deteriorate the Group's ability to access the capital markets, secured financing markets (affecting its capacity to replace its impaired assets with other assets bearing better ratings) or inter-bank markets through wholesale deposits, or even lead to a failure to comply with certain contracts or generate additional obligations under those contracts, such as the need to grant additional guarantees, due to the fact that credit ratings are used in some contracts to activate non-compliance and early termination clauses or serve as a basis for demanding additional guarantees if they fall below certain levels.

If the Group is required to cancel contracts due to a ratings reduction leading to early termination, it may not be able to replace them on similar terms or at all, which could have a material adverse impact on its business, financial condition and results of operations.

A ratings reduction could also have an adverse effect on the Group’s reputation or on its ability to sell or market some of its products or participate in certain transactions, and could cause a loss of customer deposits or lead to third parties being less willing to carry out commercial transactions with the Group, especially transactions requiring a minimum rating for investment, which could have a material adverse effect on the Group’s business, financial condition and results of operations.

Moreover, the Group’s ratings may be affected by a decline in the rating for Spanish sovereign debt, including because the Group holds a substantial amount of securities issued by the Kingdom of Spain, autonomous communities within Spain and other Spanish issuers. The Group’s exposure as of December 31, 2019 to Spanish sovereign debt was €50,905 million, representing 7% of the Group’s total consolidated assets (compared to €48,473 million and €51,410 million, representing 7% and 7% of the Group’s total consolidated assets as of December 31, 2018 and 2017, respectively). Any decline in the Kingdom of Spain’s credit ratings could adversely affect the value of the respective debt portfolios held by the Group or otherwise materially adversely affect the Group’s business, financial condition and results of operations.

Furthermore, the counterparties to many of the Group’s loan agreements could be similarly affected by any decline in the Kingdom of Spain’s credit 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.

BBVA depends in part upon dividends and other funds from subsidiaries, which payment could be beyond BBVA’s control

Some of the Group’s operations are conducted through BBVA’s subsidiaries. As a result, BBVA’s results (and its ability to pay dividends) depend in part on the ability of its subsidiaries to generate earnings and to pay dividends to BBVA. However, as a result in part of the Group’s decision to follow a multiple-point-of-entry resolution strategy (as part of the framework for the resolution of financial entities designed by the Financial Stability Board (FSB)), BBVA’s subsidiaries are required to manage their own liquidity autonomously (obtaining deposits or accessing markets using their own rating) and their payment of dividends, distributions and advances will depend on their earnings and liquidity and the overall state of their business, among other considerations, subject to any legal, regulatory and contractual restrictions.

Additionally, the Bank’s right to receive any assets of any of its 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 “*—Regulatory Risks—Increasingly onerous capital requirements may have a material adverse effect on the Bank’s business, financial condition and results of operations*”).

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

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

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

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

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

The Group'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). Recent and ongoing political processes such as Brexit, the surge of populist trends in several European countries, health-related crisis, 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.

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

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

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

LEGAL, REGULATORY, TAX AND REPORTING RISKS

Legal Risks

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 the 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 the claimants argue that certain provisions of such agreements should be declared null and void (including provisions concerning fees and other expenses, early termination and the use of certain interest rate indexes in mortgage loans). The application of certain interest rates and other conditions in certain credit card contracts is also being challenged in the Spanish courts. Legal and regulatory actions and proceedings currently faced by other financial institutions regarding these and other matters, especially if such actions or proceedings result in consumer-friendly rulings, could also adversely affect the Group.

On December 14, 2017, the Spanish Supreme Court issued judgment 669/2017 regarding consumer mortgage loans linked to the interest rate index known as IRPH (the average rate for mortgage loans with a term exceeding three years for the acquisition of free-market homes granted by credit institutions in Spain), which was calculated by the Bank of Spain and published in the Official State Journal, which ruling confirmed that the mere referencing of a mortgage loan to the IRPH did not imply a lack of transparency.

A request for a preliminary ruling was subsequently made to the European Court of Justice, which questioned the judgment adopted by the Spanish Supreme Court. On September 10, 2019, the Attorney General of the European Court of Justice issued a report in which he concluded that Bankia, S.A. (the Spanish bank that is a party to this proceeding) complied with the transparency requirement imposed by applicable European legislation. The Attorney General also stated that national judges are responsible for assessing compliance with applicable transparency obligations in each particular case. However, the conclusions reached by the Attorney General in his report are not binding on the European Court of Justice, which is still to rule on the matter. If the European Court of Justice were to adopt a ruling contrary to the Group’s interests, the Group’s results could be materially adversely affected. The precise impact of such a ruling would depend on (i) the Court’s decision regarding which interest rate should be applied to consumer mortgage loans linked to IRPH, and (ii) whether the judgment would be applied retroactively. It is currently expected that the European Court of Justice will issue a ruling in this matter in March 2020.

The Group is also involved in antitrust proceedings and investigations in certain countries which could, among other things, 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, S.A. (“**BBVA Mexico**”) in connection with transactions in Mexican government bonds. The Mexican Banking and Securities Exchange Commission (*Comisión Nacional Bancaria y de Valores*) also initiated a separate investigation regarding this matter, which resulted in certain fines, insignificant in amount, being initially imposed, which BBVA Mexico has challenged. In March 2018, BBVA Mexico and certain other affiliates of the Group were named as defendants in a putative class action lawsuit filed in the United States District Court for the Southern District of New York, alleging that the defendant banks and their named subsidiaries engaged in collusion with respect to the purchase and sale of Mexican government bonds. The judge assigned to hear these proceedings dismissed plaintiffs’ claims in their entirety but permitted plaintiffs to file an amended complaint, which the defendants have again moved to dismiss.

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 contrary to the Group’s interests, could have a material adverse effect on the Group’s business, financial condition and results of operations.

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

Spanish judicial authorities are investigating the activities of Centro Exclusivo de Negocios y Transacciones, S.L. (“Cenyt”). Such investigation includes the provision of services by Cenyt to the Bank. On July 29, 2019, the Bank was named as an investigated party (investigado) in a criminal judicial investigation (Preliminary Proceeding No. 96/2017 – Piece No. 9, Central Investigating Court No. 6 of the National High Court) for alleged facts which could represent the crimes of bribery, revelation of secrets and corruption. As at the date of this Annual Report, no formal accusation against the Bank has been made. Certain current and former officers and employees of the Group, as well as former directors of the Bank, have also been named as investigated parties in connection with this investigation. The Bank has been and continues to be proactively collaborating with the Spanish judicial authorities, including sharing with the courts information from its on-going forensic investigation regarding its relationship with Cenyt. The Bank has also testified before the judge and prosecutors at the request of the Central Investigating Court No. 6 of the National High Court.

On February 3, 2020, the Bank was notified by the Central Investigating Court No. 6 of the National High Court of the order lifting the secrecy of the proceedings.

This criminal judicial proceeding is at a preliminary stage. Therefore, it is not possible at this time to predict the scope or duration of such proceeding or any related proceeding or its or their possible outcomes or implications for the Group, including any fines, damages or harm to the Group’s reputation caused thereby.

Regulatory Risks

The Group is subject to substantial regulation and regulatory and governmental oversight. Changes in the regulatory framework, including the different local regulations applicable to the Group, 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. Other proposals are still being developed.

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, legislation regarding mortgages and banking products, consumer and user regulations, 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, legislation on the prevention of money laundering and the financing of terrorism, market abuse and integrity legislation, regulations regarding conduct with financial market customers, anti-corruption legislation, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures. In addition, the European supervisory and regulatory framework has changed and intensified, following the creation of the Single Supervisory Mechanism and the SRM.

The specific effects of these new regulations are often uncertain given their early stage of elaboration or implementation. In addition, while some of these new laws and regulations have already entered into force, the manner in which they will be applied to the operations of financial institutions is still evolving. The discretion that regulators and supervisors have when regulating and supervising banks also generates uncertainty.

Moreover, local legislation in certain jurisdictions where the Group operates differs in a number of material respects from equivalent regulations in Spain or the United States and may, for example, establish different capital requirements, prohibit the Bank from engaging in certain activities or require specific authorization for those activities, which may give rise to higher compliance costs. See "*—Business Risks—Risks Deriving from our Geographic Distribution—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*".

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, and increase the Group's compliance costs.

Any required changes to the Group's business operations resulting from the legislation and regulations applicable to such business, in particular in Spain, Mexico, the United States or Turkey, 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 its business, financial condition and results of operations.

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

In its capacity as a Spanish credit institution, the Bank is subject to compliance with a "Pillar 1" solvency requirement, a "Pillar 2" solvency requirement and a "combined capital buffer requirement" at both the individual and consolidated level. For additional information, see "*Item 4. Information on the Company—Business Overview—Supervision and Regulation*".

As a result of the latest Supervisory Review and Evaluation Process ("**SREP**") carried out by the European Central Bank ("**ECB**"), the Bank is required to maintain, from January 1, 2020 on a consolidated basis, a common equity tier 1 capital ratio ("**CET1**") of 9.27% and a total capital ratio of 12.77%. This total capital requirement on a consolidated basis includes: (i) a Pillar 1 requirement of 8% that should be fulfilled by a minimum of 4.5 p.p. of CET1; (ii) a Pillar 2 requirement of 1.5 p.p. of CET1 (the same as that imposed in the previous SREP decision); (iii) a Capital Conservation buffer of 2.5 p.p. of CET1; (iv) an Other Systemic Important Institution buffer ("**D-SIBs**") of 0.75 p.p. of CET1; and (v) a Countercyclical Capital buffer 0.02 p.p. of CET1. Additionally, the Bank is required to maintain, from January 1, 2020, on an individual basis, a CET1 capital ratio of 8.53% and a total capital ratio of 12.03%.

As of December 31, 2019, the Bank's phased-in total capital ratio was 15.92% on a consolidated basis and 20.81% on an individual basis (15.71% and 22.07%, respectively, as of December 31, 2018), and its CET1 phased-in capital ratio was 11.98% on a consolidated basis and 16.42% on an individual basis (11.58% and 17.45%, respectively, as of December 31, 2018).

While such ratios exceed the applicable regulatory requirements described above, 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.

Should the Bank or the Group fail to comply with its “combined capital buffer requirement”, it would have to calculate its Maximum Distributable Amount (“**MDA**”) and, until such calculation was done and reported to the Bank of Spain, the affected entity would not be able to make any distributions relating to additional tier 1 instruments (“**Discretionary Payments**”). Once the MDA was calculated and reported, any Discretionary Payments would be limited to the calculated MDA.

In addition, if the Bank or the Group fails to comply with the applicable capital requirements, additional “Pillar 2” requirements could be imposed and early action measures could be adopted or, ultimately, resolution measures could be implemented by the resolution authorities in accordance with Law 11/2015 which, together with RD 1012/2015 (as defined herein), transposes Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (“**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.

Moreover, CRR II (as defined herein) has established a binding leveraging ratio requirement of 3% of tier 1 capital. Any failure to comply with this leveraging ratio would also result in the need to calculate and report the MDA and the same restrictions on Discretionary Payments.

Additionally, the CRR II proposes new requirements that capital instruments must meet in order to be considered AT1 or Tier 2 instruments, including some grandfathering measures until June 28, 2025. Once CRR II has been transposed and the grandfathering period has elapsed, AT1 and/or Tier 2 instruments that do not comply with the new requirements at that date will no longer be computed as capital instruments. This could give rise to shortfalls in regulatory capital and, ultimately, a failure to comply with the applicable regulatory minimum capital requirements, with the aforementioned consequences.

On February 1, 2019, the Bank announced its CET1 fully-loaded capital ratio target (on a consolidated basis) to be in the range between 11.5% and 12.0%. No assurance can be given that the Bank will maintain this target or meet it in the future. Any failure by the Bank to maintain a consolidated CET1 capital ratio in line with its CET1 capital target, or any change in such target, could be negatively perceived by investors and/or regulators, who may interpret that the Bank lacks capacity to generate capital or that its capital position has deteriorated, any of which 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 published its supervisory expectations regarding prudential provisions for non-performing loans (“**NPLs**”) as an addendum (“**Addendum**”) to the ECB guidance on NPLs for credit institutions published on March 20, 2017, where the ECB’s supervisory expectations with respect to the identification, management, measurement and write-off of NPLs were clarified with the aim of avoiding an excessive build-up of non-covered aged NPLs on banks’ balance sheets.

The supervisory expectations set out in the Addendum are applicable to new NPLs classified as such starting on April 1, 2018. The ECB will assess bank practices at least once per year and, from 2021, banks must inform the ECB of any difference between their practices and the prudential provision expectations. The implementation of such expectations may affect the minimum coverage levels required for new defaulted loans and, if applicable, the amounts of provisions relating to NPLs exposures.

The ECB has also 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 with a view to harmonizing such approaches throughout the European Union. Even though the results of the TRIM are not yet known, if they require changes to the internal models used by banks, including BBVA, this could in turn give rise to increases or decreases in the banks’ capital needs.

On December 7, 2017 the Basel Committee on Banking Supervision ("**BCBS**") announced the completion of the 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 risk sensitivity, as well as to 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 ("**RWA**s") using internal risk models as compared to the standardized approach, with a minimum capital requirement of 50% of RWAs calculated using only the standardized approaches applying from January 1, 2022 and increasing to 72.5% from January 1, 2027, which could in turn imply a decrease in the capital ratios of the Bank and the Group. To the extent the Basel III reforms result in an increase in the Bank's total RWAs, they could also result in a corresponding decrease in the Bank's capital ratios.

The lack of uniformity in the implementation of the Basel III reforms across jurisdictions in terms of timing and applicable regulations could give rise to inequalities and competition distortions. Moreover, the lack of regulatory coordination, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect an entity with global operations such as the Group and could affect its profitability.

There can be no assurance that 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, an increase in capital requirements could negatively affect the return on equity ("**ROE**") and other banking financial result 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 measures and authorities established by the BRRD, Law 11/2015 and RD 1012/2015 (especially the Spanish Bail-in Power, including a Non-Viability Loss Absorption), affect the manner in which credit institutions and investment firms are managed and, under certain circumstances, creditor rights.

In the event that the Spanish Resolution Authority 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; and (iii) a resolution action is in the public interest, the Spanish Resolution Authority may apply, individually or on a combined basis, the following four resolution instruments: (a) the sale of all or part of the institution's business, (b) its transfer to a bridge entity (which could limit its capacity to satisfy its payment obligations), (c) the transfer of certain asset categories for management by one or more management entities and (d) the application of the Spanish Bail-in Power.

The Spanish Resolution Authority could also adopt a Non-Viability Loss Absorption measure in the event that it determines that the entity complies with the conditions for resolution and that it would become non-viable unless some or all of the capital instruments are redeemed or converted into shares or other equity instruments.

As part of the application of the Spanish Bail in Power (including a Non-Viability Loss Absorption), unsecured debt securities, subordinated instruments and shares (among other securities) issued by the Bank, could be subject to a full or partial write-down and/or conversion into equity or other securities or obligations. There is no assurance that the mere existence of these powers or any suggestion of their exercise, even if the likelihood of such exercise is remote, will not affect the price and trading behavior of such securities issued by the Bank.

Therefore, as a result of the application of the Spanish Bail-in Power (including a Non-Viability Loss Absorption), the owners of those securities could lose all or part of their investment, and their rights under those securities could be adversely affected, or these securities could be substituted for by other securities with less advantageous terms. Such exercise could also involve modifications to, or the disapplication of, provisions in the terms and conditions of such securities including alteration of the principal amount or any interest payable thereon, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The Spanish Resolution Authority may exercise any of the foregoing measures without prior warning to the owners of the affected securities. Further, their application is unpredictable and may depend on a series of factors that may be outside of the Bank’s control. Accordingly, the owners of any affected securities may not be able to anticipate the application of the Spanish Bail-in Power and/or a Non-Viability Loss Absorption.

In the event that the treatment of a holder of the Bank’s affected securities resulting from the application of the Spanish Bail-in Power (other than a Non-Viability Loss Absorption) is less favorable than would have been the case in an ordinary insolvency proceeding, the affected creditor would be able to seek compensation in accordance with the BRRD and the SRM Regulation, subject to the limitations and deadlines established in applicable legislation. However, there is uncertainty with respect to the amounts that could be collected and the payment date. Moreover, there are uncertainties as to whether an affected holder would be entitled to compensation under the BRRD and the SRM Regulation after the implementation of a Non-Viability Loss Absorption.

For further information, see “*Item 4. Information on the Company—Business Overview—Supervision and Regulation*”.

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

As a Spanish credit institution, the Bank must maintain a minimum level of eligible liabilities and own funds compared to its total liabilities and own funds (the minimum requirement for own funds and eligible liabilities or “**MREL**”).

On November 19, 2019, the Bank announced that it had received a communication from the Bank of Spain regarding its MREL, as determined by the Single Resolution Board (“**SRB**”), that has been calculated taking into account the financial and supervisory information as of December 31, 2017. In accordance with such communication, the Bank has to reach, by January 1, 2021, an MREL equal to 15.16% on a sub-consolidated level (as described below). Within this MREL, an amount equal to 8.01% of the total liabilities and own funds must be met with subordinated instruments, once the allowance established in such requirement is applied. This MREL is equal to 28.50% of RWAs, while the subordination requirement included in the MREL is equal to 15.05% of RWAs, once the corresponding allowance has been applied.

Pursuant to the Group’s multiple point of entry resolution strategy, as established by the SRB, the Bank’s resolution group on a sub-consolidated level consists of the Bank and its subsidiaries that belong to the European resolution group. As of December 31, 2017, the total liabilities and own funds of the resolution group amounted to €371,910 million, representing the Bank more than 95% of such amount. The RWAs of the resolution group amounted to €197,819 million at that date.

According to the Bank’s estimates, the current own funds and eligible liabilities structure of our resolution group meets the MREL and subordination requirement. However, such requirements are subject to change and no assurance can be given that the Bank will not be subject to more stringent requirements in the future. If the Spanish Resolution Authority believes that there could be any impediments to the resolution of the Bank and/or the Group, more stringent requirements could be imposed.

The EU Banking Reforms (as defined herein) provide that a bank's failure to comply with its MREL or its subordination requirement should 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 and their power to impose early intervention measures, administrative penalties and other administrative measures. If there is any shortfall in an institution's level of eligible liabilities and own funds, and the own funds of such institution are otherwise contributing to the "combined buffer requirement", those own funds will automatically be used instead to meet that institution's MREL or subordination requirement and will no longer count towards its "combined buffer requirement", which may lead the institution to fail to meet its "combined buffer requirement". This would require such institution to calculate its MDA, and the relevant resolution authority would be able (but not obligated to) impose restrictions 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*"). As a result of the above, upon the entry into force of the EU Banking Reforms on June 27, 2019, the Bank must fully comply with its "combined buffer requirement" in addition to its MREL and subordination requirement in order to make sure that it is able to make Discretionary Payments.

In addition, under the European Banking Authority (**"EBA"**) guidelines on triggers for use of early intervention measures dated 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 MREL may put an institution in a situation where conditions for early intervention are met, which may result in the application by the competent resolution authority of early intervention measures.

Moreover, if Total Loss-Absorbing Capacity ("**TLAC**") requirements (which are currently only applicable to entities that are considered to be of global systemic importance (G-SIBs)) were to be extended to non-G-SIBs, or if the Bank was to be classified as a G-SIB, further requirements similar to MREL could be imposed on the Bank in the future.

Any failure or perceived failure by the Bank and/or the Group to comply with its MREL and the subordination requirement may have a material adverse effect on the Bank's business, financial condition and results of operations and could result in the imposition of restrictions or prohibitions on Discretionary Payments. There can also be no assurance as to the manner in which the "Pillar 2" additional own funds requirements, the "combined buffer requirement" and the MREL and subordination requirement (once in effect) will be jointly implemented in Spain, or if the combined effect of these requirements will restrict our ability to make any Discretionary Payments.

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 is to be applied have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The LCR has been progressively implemented since 2015 in accordance with the CRR, with banks having had to fully comply with such ratio since January 1, 2018. As of December 31, 2019, the Group's LCR was 129%.

The BCBS has also put forward a net stable funding ratio ("**NSFR**"), which has a time horizon of one year. This ratio 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. Although the BCBS contemplated that EU Member States had to implement such ratio by January 1, 2018, with no phase-in, the NSFR has not yet been adopted. The EU Banking Reforms propose the introduction of a harmonized binding requirement for the NSFR across the European Union.

Various elements of the LCR and the NSFR, and how they are implemented by national banking regulators, may lead to changes to certain business practices, which could expose the Bank to additional costs (including increased compliance costs) or otherwise affect the profitability of the business, which could 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.

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

Spanish credit institutions, including BBVA, are required to make at least one annual ordinary contribution to the National Resolution Fund (*Fondo de Resolución Nacional*) (“**FRN**”), payable on request of the FROB. The total amount of contributions by all Spanish banking entities must equal at least 1% of the aggregate amount of all deposits guaranteed by the Credit Entities Deposit Guarantee Fund (*Fondo de Garantía de Depósitos de Entidades de Crédito*) (“**FGD**”) by December 31, 2024. The contributions are adjusted to the risk profile of each institution in accordance with the criteria set out in the relevant regulation. Moreover, the FROB may decide to collect additional contributions. Furthermore, Law 11/2015 establishes an additional contribution that seeks to provide financing to the FROB in its capacity as the Spanish Resolution Authority. This contribution amounts to 2.5% of the aforementioned annual ordinary contribution to the FRN. Finally, since 2016, the Bank is required to make contributions directly to the Single Resolution Fund.

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

Our financial results, regulatory capital and ratios may be negatively affected by changes to accounting standards

We report our results and financial position 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. Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations or historical results, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect our regulatory capital and ratios. We monitor potential accounting changes and, when possible, we determine their potential impact and disclose significant future changes in our financial statements that we expect as a result of those changes. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact our reported results, financial position and regulatory capital in the future. For further information about developments in financial accounting and reporting standards, see Note 2.3 to our Consolidated Financial Statements (“Recent IFRS pronouncements”).

Tax Risks

Increased taxation and other burdens 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 (the “**EU 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 implemented, 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 EU 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 would be considered to be “established” in a participating Member State in a broad variety of circumstances, including: (i) by carrying out transactions with a person established in a participating Member State or (ii) when the financial instrument involved in the transaction has been issued in a participating Member State.

However, the Commission’s 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, in February 2020 a financial transaction tax was announced in Spain which is based in part on the Commission's Proposal (the "**Spanish FTT**"). The Spanish FTT rate is proposed to be 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. Trades of the Bank's shares would be subject to the Spanish FTT. If the directive for the implementation of the EU FTT is approved, the Spanish FTT would have to be adapted to the content of the directive. The EU FTT could impose a higher tax rate than that currently proposed in the Spanish FTT bill.

There can be no assurance that additional financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates and, if introduced, certain financial instrument transactions may be subject to higher expenses.

Any levies or taxes imposed on the Bank's securities or activities or otherwise affecting the Bank pursuant to the foregoing or otherwise could have a material adverse effect on the Bank's business, financial condition and results of operations.

Reporting Risks

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

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

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

The further development of standards and interpretations under IFRS-IASB could also significantly affect the results of operations, financial condition and prospects of the Group. See "*—Legal Risks—Regulatory Risks—Our financial results, regulatory capital and ratios may be negatively affected by changes to accounting standards*".

INTERNAL CONTROL RISKS

Compliance Risks

The Group is exposed to compliance risks which may have a material adverse effect on the Group's business, financial condition and results of operations, and may damage the Group's reputation

As part of its business, the Group offers and markets banking and investment products and services to its customers and actively operates in financial markets on its own behalf and on behalf of its customers in the various jurisdictions in which it operates. As a result of the nature of its operations and the fact that the Group operates in many different jurisdictions around the world, the Group must comply with a wide array of laws, rules and regulations, many of which have different scopes and implications. Legal fragmentation may be further exacerbated by how such laws, rules and regulations are implemented by the relevant local supervising authorities. This fragmentation makes compliance risk management particularly complex, as compliance programs must address the different legal requirements facing the Group.

Compliance risk relates to the fact that the Group must comply with many different laws, rules and regulations. For example, the Group is subject to laws, rules and regulations regarding money laundering and the financing of terrorism. The Group must also abide by applicable sanctions programs. The most relevant sanctions programs are those administered by the United Nations, the European Union and the United States (including sanctions imposed by the Office of Foreign Assets Control under the U.S. Treasury Department). In addition, the Group's operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the UK Bribery Act of 2010. These anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Group's business, the Group may directly or indirectly, through third parties, deal with entities whose employees are considered to be government officials. The Group's activities are also subject to complex customer protection and market integrity regulations.

The Group has compliance programs intended to mitigate the Group's compliance risk. However, the Group cannot provide assurance that the controls established within the Group to ensure compliance with these laws, rules and regulations will not be circumvented or that they will otherwise be sufficient to prevent their violation. A violation of the applicable laws, rules and regulations could lead to material consequences, including 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, any of which could have a material adverse effect on the Group's business, results of operations and financial condition.

Further, compliance with these laws, rules and regulations can represent a material financial burden for the Group and raise important technical problems. Further, the Group engages in investigations relating to potential violations of these laws, rules and regulations from time to time and any such investigations or any related proceedings could be time-consuming and costly and their outcomes difficult to predict.

Moreover, some of our management, 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 such persons 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. 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. Actual or alleged misconduct by Group entities in any number of activities or circumstances, including operations, employment-related offenses such as sexual harassment and discrimination, regulatory compliance, the use and protection of data and systems, and the satisfaction of client expectations, and actions taken by regulators or others in response to such misconduct, could lead to, among other things, sanctions, fines and reputational damage, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

IT 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 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 criminal groups, 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 financial industry is increasingly dependent on information technology systems, which may fail, may not be adequate for required tasks or may no longer be available

Our 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 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.