D. Risk Factors

Macroeconomic Risks

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

Despite recent improvements in certain segments of the global economy (including, to a lesser extent, the Eurozone), uncertainty remains concerning the future economic environment. The deterioration of economic conditions in the countries where the Group operates could adversely affect the cost and availability of funding for the Group, the quality of the Group's loan and investment securities portfolios, levels of deposits and profitability, require the Group to take impairments on its exposures to the sovereign debt of one or more countries or otherwise adversely affect the Group's business, financial condition and results of operations. In addition, the process the Group uses to estimate losses inherent in its credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of its borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, affect the reliability of the process and the sufficiency of the Group's loan loss provisions.

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

- weak economic growth or recession in the countries where it operates;
- deflation, mainly in Europe, or significant inflation, such as the significant inflation recently experienced by Venezuela and Argentina;
- changes in foreign exchange rates, such as the recent local currency devaluations in Venezuela and Argentina, as they result in changes in the reported earnings of the Group's subsidiaries outside the Eurozone, and their assets, including their risk-weighted assets, and liabilities;
- a lower interest rate environment, which could lead to decreased lending margins and lower returns on assets; or a higher interest rate environment, including as a result of an increase in interest rates by the Federal Reserve, which could affect consumer debt affordability and corporate profitability;
- any further tightening of monetary policies, including to address upward inflationary pressures in Latin America, which could endanger a still tepid and fragile economic recovery and make it more difficult for customers of the Group's mortgage and consumer loan products to service their debts;
- adverse developments in the real estate market, especially in Spain, Mexico and the United States, given the Group's exposures to such markets;
- poor employment growth and structural challenges restricting employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect the household income levels of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan losses;
- lower oil prices, which could particularly affect producing areas, such us Venezuela, Mexico, Texas or Colombia, to which we are materially exposed;
- the potential exit by an EU Member State from the European Monetary Union ("**EMU**"), which could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects; and

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

For additional information relating to certain economic risks that the Group faces in Spain, see "—Since BBVA'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 economic risks that the Group faces in emerging market economies such as Latin America and Turkey, see "—The Group may be materially adversely affected by developments in the emerging markets economies where it operates."

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

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

The Group has historically developed its lending business in Spain, which continues to be its main place of business. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. After rapid economic growth until 2007, Spanish GDP contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (with GDP growth of 1.4% in 2014) and the public deficit is diminishing, real or perceived difficulties in servicing public or private debt could increase Spain's financing costs. In addition, unemployment levels continue to be high and a change in the current recovery of the labor market would adversely affect households' gross disposable income.

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

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

Since BBVA is a Spanish company with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. As a result, any decline in the Kingdom of Spain's sovereign credit ratings could result in a decline in BBVA's credit ratings. In addition, the Group holds a substantial amount of securities issued by the Kingdom of Spain, autonomous communities within Spain and other Spanish issuers. Any decline in the Kingdom of Spain's credit ratings could adversely affect the value of the Kingdom of Spain's and other public or private Spanish issuers' respective securities held by the Group in its various portfolios or otherwise materially adversely affect the Group's business, financial condition and results of operations. Furthermore, the counterparties to many of the Group's loan agreements could be similarly affected by any decline in the Kingdom of Spain's credit ratings, which could limit their ability to raise additional capital or otherwise adversely affect their ability to repay their outstanding commitments to the Group and, in turn, materially and adversely affect the Group's business, financial condition and results of operations.

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

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

Emerging markets are generally subject to greater risks than more developed markets. For example, there is typically a greater risk of loss from unfavorable political and economic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies. In addition, these emerging markets are affected by conditions in global financial markets 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. As a global economic recovery remains fragile, there are risks of a deterioration. If the global economic conditions deteriorate, the business, financial condition, operating results and cash flows of BBVA's subsidiaries in emerging economies, mainly in Latin America and Turkey, may be materially adversely affected.

Furthermore, financial turmoil in any particular emerging market could negatively affect other emerging markets or the global economy in general. Financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets, and may reduce liquidity to companies located in the affected markets. An increase in the perceived risks associated with investing in emerging economies in general, or the emerging market economies where the Group operates in particular, could dampen capital flows to such economies and adversely affect such economies.

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.

The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions.

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. In particular, negative growth expectations and lack of confidence that policy changes would solve problems led to steep falls in asset values and a severe reduction in market liquidity in 2012 and 2013, and a moderated recovery in 2014. 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.

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

The Group has substantial exposure to the real estate market, mainly in Spain, Mexico and the Unites States. The Group is exposed to the real estate market due to the fact that real estate assets secure many of its outstanding loans and due to the significant amount of real estate assets held on its balance sheet (mainly in Spain). Any deterioration of real estate prices could materially and adversely affect the Group's business, financial condition and results of operations.

Legal, Regulatory and Compliance Risks

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

The financial services industry is among the most highly regulated industries in the world. 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 in response to some of these proposals. The regulatory framework for financial institutions is likely to undergo further significant change. This creates significant uncertainty for BBVA and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements, new TLAC (as defined below) requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

In addition, the new institutional structure in Europe for supervision, with the creation of the single supervisor, and for resolution, with the new single resolution mechanism could lead to changes in the near future. The specific effects of a number of new laws and regulations remain uncertain because the drafting and implementation of these laws and regulations are still on-going. In addition, since some of these laws and regulations have been recently adopted, the manner in which they are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Group's business, financial condition, results of operations and cash flows. In addition, regulatory scrutiny under existing laws and regulations has become more intense.

Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been steadily increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as BBVA that are deemed to be systemically important.

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

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

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

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

CRD IV requirements

As a Spanish financial institution, BBVA is subject to the Directive 2013/36/EU, of June 26, of the European Parliament on access to credit institution and investment firm activities and an prudential supervision of credit institutions and investment firms that replaced Directives 2006/48 and 2006/49 ("**CRD IV**"), through which the EU began implementing the Basel III capital reforms, with effect from January 1, 2014, with certain requirements in the process of being phased in until January 1, 2019. The core regulation regarding the solvency of credit entities is Regulation (UE) No. UE 575/2013 of June 26, of the European Parliament on prudential requirements on credit institutions and investment firms (the "**CRR**"), which is complemented by several binding technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of CRD IV into Spanish law has largely taken place through

Royal Decree-Law 14/2013 of November 29 (“**RD-L 14/2013**”), Law 10/2014, of June 26, on organization, supervision and solvency of credit institutions (“**Law 10/2014**”) and Royal Decree 84/2015, of February 13 (“**RD 84/2015**”), and Bank of Spain Circular 2/2014, of January 31. However, further regulatory developments in this area remain pending as at the date hereof.

The new regulatory regime has, among other things, increased the level of capital required by means of a “combined buffer requirement” that entities must comply with from 2016 onwards.

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

Accordingly, Banco Bilbao Vizcaya Argentaria, S.A. and the Group are subject to the Single Supervisory Mechanism (the “SSM”) and the ECB is required to carry out assessments under CRD IV at least on an annual basis. Therefore, there can be no assurance that these assessments carried out by the ECB may result in the imposition of additional own funds requirements on Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group pursuant to this “Pillar 2” framework.

Any additional own funds requirement that may be imposed on Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group by the ECB pursuant to this assessment would require Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group to hold capital levels above the minimum “Pillar 1” capital requirements. There can be no assurance that the total capital requirements (“Pillar 1” plus “Pillar 2” plus “combined buffer requirement”) imposed on Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group may not be higher than the levels of capital available at any relevant point in time.

Any failure by Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group to maintain its “Pillar 1” minimum regulatory capital ratios, any “Pillar 2” additional own funds requirements and/or any “combined buffer requirement” could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group’s results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the “Pillar 2” framework or any other capital requirements to which Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group is or becomes subject (including the “combined buffer requirement”), may result in the imposition of restrictions on “discretionary payments” by BBVA, including dividend payments.

In this regard, according to Law 10/2014, for those entities not meeting the “combined buffer requirement” or the “Pillar 2” capital requirements described above or where a restriction upon “discretionary payments” has been imposed pursuant to Article 68 of Law 10/2014, distributions relating to CET1 capital, variable remuneration or discretionary pension revenues and distributions relating to additional Tier 1 capital may be subject to restrictions until the Maximum Distributable Amount (i.e., the firm’s distributable profits, calculated in accordance with the formula provided for in CRD IV, multiplied by a factor dependent on how far short of the requirement the Tier 1 common equity falls**)** has been calculated and communicated to the Bank of Spain (and thereafter subject to such Maximum Distributable Amount). The criteria for the calculation of the Maximum Distributable Amount in respect of any such “discretionary payments” have been specified in the regulation developing Law 10/2014 and RD-L 84/2015.

Finally, any failure by Banco Bilbao Vizcaya Argentaria, S.A. and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further “Pillar 2” requirements and early intervention by resolution authorities pursuant to the Directive 2014/59/EU of May 15 establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”).

In addition to the above, the EBA published on December 19, 2014 its final guidelines for common procedures and methodologies in respect of the supervisory review and evaluation process (SREP). Included in this were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional own funds requirements to be implemented by January 1, 2016. Under these guidelines, national supervisors should set a composition requirement for the additional own funds requirements to cover certain specified risks of at least 56% CET1 capital and at least 75% Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the “combined buffer requirement” and/or additional macro-prudential requirements; and, accordingly, the above “combined buffer requirement” is in addition to the minimum own funds requirement and to the additional own funds requirement.

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

TLAC

On November 10, 2014 the Financial Stability Board (the “**FSB**”) published a consultative document (the “**Consultative Document**”) containing certain policy proposals to enhance the loss absorbing capacity of global systemically important banks (“**G-SIBs**”), such as BBVA. The policy proposals included in the Consultative Document consist of an elaboration of the principles on loss absorbing and recapitalization capacity of G-SIBs in resolution and a term sheet setting out a proposal for the implementation of these proposals in the form of an internationally agreed standard on total loss absorbency capacity (“**TLAC**”) for G-SIBs. The consultation period ended on February 2, 2015.

Once finalized, these proposals will form a new minimum TLAC standard for G-SIBs. If implemented as contemplated, the TLAC requirement may create additional minimum capital requirements for BBVA and could require BBVA to maintain an additional minimum TLAC ratio of (i) BBVA’s regulatory capital plus certain types of debt capital instruments and other eligible liabilities that can be written down or converted into equity during resolution to (ii) BBVA’s risk-weighted assets.

However, the final proposed TLAC amount has not been agreed within the FSB and is the subject of a quantitative impact study, expected to be completed in 2015.

The TLAC requirements may apply on a common minimum “Pillar 1” basis, and home and host resolution authorities may specify additional “Pillar 2” TLAC requirements on an individual institution basis. TLAC requirements may further be imposed in addition to the minimum “Pillar 1” capital requirements under CRD IV and the requirement for own funds and eligible liabilities (“**MREL**”) pursuant to the BRRD once implemented in Spain. Any failure by an institution to meet the applicable minimum “Pillar 1” and “Pillar 2” TLAC requirements may be treated in the same manner as a failure to meet minimum regulatory capital requirements, where resolution authorities must ensure that they intervene and place an institution into resolution sufficiently early if it is deemed to be failing or likely to fail and there is no reasonable prospect of recovery.

While it is possible that TLAC requirements will be implemented by means of MREL, that is not yet certain. The conditions required of TLAC eligible instruments (other than own funds) and those required of eligible liabilities for MREL purposes under the BRRD are different and there can be no assurance that it will be possible for BBVA to issue instruments which simultaneously satisfy both requirements. Markets have not yet been established for such instruments (other than own funds instruments) and there can be no assurance that such markets will develop or that, if they do, BBVA will be able to issue sufficient TLAC and MREL eligible liabilities to meet its requirements. That may limit the quantity of BBVA’s CET1 capital which is available to meet its “combined buffer requirement” and may, therefore, limit BBVA’s ability to make “discretionary payments”.

There can be no assurance as to the relationship between the above “combined buffer requirement” and “Pillar 2” additional own funds requirements, the TLAC requirement, MREL and the restrictions on “discretionary payments” discussed above. There can also be no assurance as to how and when effect will be given to the above guidelines of the EBA in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mexico

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

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

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

United States

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

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

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

Liquidity and Financial Risks

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

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

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

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

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

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

The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant effect on the Group's earnings. Adverse changes in the credit quality of the Group's borrowers and counterparties or collateral, or in their behavior or businesses, may reduce the value of the Group's assets, and materially increase the Group's write-downs and provisions for impairment losses. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer and/or government spending, global economic slowdown, changes in the rating of individual counterparties, the debt levels of individual contractual counterparties and the economic environment they operate in, increased unemployment, reduced asset values, increased personal or corporate insolvency levels, reduced corporate profits, changes (and the timing, quantum and pace of these changes) in interest rates, counterparty challenges to the interpretation or validity of contractual arrangements and any external factors of a legislative or regulatory nature. In recent years, the global economic crisis has driven cyclically high bad debt charges.

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

The Group’s business is particularly vulnerable to volatility in interest rates.

The Group’s results of operations are substantially dependent upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond the Group’s control, including fiscal and monetary policies of governments and central banks, regulation of the financial sectors in the markets in which it operates, domestic and international economic and political conditions and other factors. Changes in market interest rates can affect the interest rates that the Group receives on its interest-earning assets differently to the rates that it pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income the Group receives, which could have a material adverse effect on its results of operations.

In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates. In addition, a rise in interest rates could reduce the demand for credit and the Group’s ability to generate credit for its clients, as well as contribute to an increase in the credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse effect on the Group’s business, financial condition or results of operations.

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

The Group’s commitments with personnel which are considered to be wholly unfunded are recognized under the heading “Provisions—Provisions for pensions and similar obligations” in BBVA’s consolidated balance sheets included in the Consolidated Financial Statements. For more information please see Note 24 of our Consolidated Financial Statements.

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

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

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

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

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

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

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

Business and Industry Risks

The Group faces increasing competition in its business lines.

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

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

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

The Group faces risks related to its acquisitions and divestitures.

The Group's mergers and acquisitions activity involves divesting its interests in some businesses and strengthening other business areas through acquisitions. The Group may not complete these transactions in a timely manner, on a cost-effective basis or at all. Even though the Group reviews the companies it plans to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, the Group may assume unanticipated liabilities, or an acquisition may not perform as well as expected. In addition, transactions such as these are inherently risky because of the difficulties of integrating people, operations and technologies that may arise. There can be no assurance that any of the businesses the Group acquires can be successfully integrated or that they will perform well once integrated. Acquisitions may also lead to potential write-downs due to unforeseen business developments that may adversely affect the Group's results of operations.

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

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

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

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

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

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

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

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

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

Financial and Risk Reporting

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

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

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

Banks and their activities are increasingly dependent on highly sophisticated information technology ("**IT**") systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centers. IT systems need regular upgrading and banks, including BBVA, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks, including BBVA, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

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

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

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 accordance with IFRS 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 credit impairment charges for amortized cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. 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 could also significantly affect the financial results, condition and prospects of the Group.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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