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For a discussion of our foreign currency exposure, please see Note 7.4.2 to our Consolidated Financial Statements (“Market Risk–Structural Exchange Rate Risk”) and “Item 11. Quantitative and Qualitative Disclosures About Market Risk”.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Macroeconomic Risks

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

Despite the recent growth of the global economy, uncertainty remains. The deterioration of economic conditions in the countries where the Group operates could adversely affect the cost and availability of funding for the Group, the quality of the Group’s loan and investment securities portfolios and levels of deposits and profitability, which may also require the Group to take impairments on its exposures 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;
- changes in the institutional environment in the countries where it operates could evolve into sudden and intense economic and/or regulatory downturns;
- 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, even a prolonged period of negative interest rates in some areas where the Bank operates, which could lead to decreased lending margins and lower returns on assets;
- a higher interest rate environment, including as a result of an increase in interest rates by the Federal Reserve or any further tightening of monetary policies, including to address inflationary pressures and currency devaluations 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, the United States and Turkey, given the Group’s exposures to such markets;

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- 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 loss provisions;
- lower oil prices, which could particularly affect producing areas, such as Venezuela, Mexico, Texas or Colombia, to which the Group is materially exposed;
- changes in laws, regulations and policies as a result of election processes in the different geographies in which the Group operates, including Spain, the Spanish region of Catalonia and the United States, which may negatively affect the Group's business or customers in those geographies and other geographies in which the Group operates;
- the potential exit by an EU Member State from the European Monetary Union ("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;
- the possible political, economic and regulatory impacts in the United Kingdom and the European Union ("EU") derived from the outcome of the referendum held in the United Kingdom on June 23, 2016, which resulted in a vote in favor of the United Kingdom leaving the EU. The possible impact of the United Kingdom exiting the EU could include, among other things, political instability in the United Kingdom, the EU as a whole, or countries forming part of the EU; regulatory changes in the United Kingdom and/or in the EU; economic slowdown in the United Kingdom, in the EU and/or outside the EU; deterioration of the creditworthiness of borrowers based in or related to the United Kingdom; and volatility in financial markets which could limit or condition BBVA's or any other issuer's access to capital markets, all of which may arise regardless of the uncertainty as to the timing and duration of the exit process; 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 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 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 where it operates."*

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

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

The Group has historically developed its lending business in Spain, which continues to be one of the main focuses of its business. 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 gross domestic product ("GDP") contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. The current account imbalance has been corrected and the public deficit is in a downward trend, with GDP growth above 3% in 2015 and 2016 and unemployment falling below 20% in 2016. However, real or perceived difficulties in servicing public or private debt, triggered by foreign or domestic factors such as an increase in global financial risk or a decrease in the rate of domestic growth, could increase Spain's financing costs, hindering economic growth, employment and households' gross disposable income.

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

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

The economies of some of the emerging markets where the Group operates, mainly Latin America and Turkey, experienced significant volatility in recent decades, characterized, in some cases, by slow or declining growth, declining investment 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 and geopolitical instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies, and political unrest, such as the attempted coup in Turkey on July 15, 2016 and state of emergency entitling the exercise of additional powers by the Turkish government first declared on July 20, 2016. In addition, these emerging markets are affected by conditions in other related markets and in global financial markets generally 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 deterioration. If the global economic conditions deteriorate, the business, financial condition, operating results and cash flows of the Bank's subsidiaries in emerging economies, mainly in Latin America and Turkey, may be materially adversely affected.

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.

In addition, any changes in laws, regulations and policies pursued by the incoming U.S. Government may adversely affect the emerging markets in which the Group operates, particularly Mexico due to the trade and other ties between Mexico and the United States.

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. Several factors could further depress the valuation of our assets. Current political processes such as the implementation of the "Brexit" referendum for the United Kingdom to leave the European Union, the surge of populist trends in several European countries or potential changes in U.S. economic policies implemented by the new administration, could increase global financial volatility and lead to the reallocation of assets. Doubts on the asset quality of European banks have also affected their evolution in the market during 2016 and such doubts might remain in 2017. In addition, uncertainty about China's growth expectations and its policymaking capability to address certain severe future challenges has recently resulted in sudden and intense 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.

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 United 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. 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

The Group is subject to substantial regulation and regulatory and governmental oversight. Changes in the regulatory framework could have a material adverse effect on its business, results of operations and financial condition

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

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

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

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

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

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

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

As a Spanish credit institution, the Bank is subject to Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the “**CRD IV Directive**”), 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 (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “**CRR**” and, together with the CRD IV Directive and any measures implementing the CRD IV Directive or the CRR which may from time to time be introduced in Spain, “**CRD IV**”), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU Member States, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013 of November 29 (“**RD-L 14/2013**”), Law 10/2014 of June 26, on the organization, supervision and solvency of credit institutions (“**Law 10/2014**”), Royal Decree 84/2015, of February 13 (“**RD 84/2015**”), Bank of Spain Circular 2/2014, of January 31 and Bank of Spain Circular 2/2016 of February 2 (the “**Bank of Spain Circular 2/2016**”). On November 23, 2016, the European Commission published a package of proposals with further reforms to CRD IV, Directive 2014/59/EU of May 15 establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”) and Regulation (EU) No. 806/2014 of the European Parliament and the Council of the European Union

(the “**SRM Regulation**”) (the “**EU Banking Reforms**”), including measures to increase the resilience of EU institutions and enhance financial stability. The timing for the final implementation of these reforms as at the date of this Annual Report is unclear.

CRD IV has, among other things, established minimum “Pillar 1” capital requirements and increased the level of capital required by means of a “combined buffer requirement” that entities must comply with from 2016 onwards. The “combined buffer requirement” has introduced five new capital buffers: (i) the capital conservation buffer, (ii) the global systemically important institutions buffer (the “**G-SIB buffer**”), (iii) the institution-specific countercyclical buffer, (iv) the other systemically important institutions buffer (the “**D-SIB buffer**”) and (v) the systemic risk buffer. The “combined buffer requirement” applies in addition to the minimum “Pillar 1” capital requirements and is required to be satisfied with Common Equity Tier 1 (“**CET1**”) capital.

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

The Bank of Spain announced on November 7, 2016 that the Bank will continue to be considered a D-SIB, and consequently the Bank will be required to maintain during 2017 a D-SIB buffer of a CET1 capital ratio of 0.75% on a consolidated basis. The D-SIB buffer is being phased-in from January 1, 2016 to January 1, 2019, with the result that the D-SIB buffer applicable to the Bank for 2017 is a CET1 capital ratio of 0.375% on a consolidated basis.

The Bank of Spain has greater discretion in relation to the institution-specific countercyclical buffer, the buffer for D-SIBs and the systemic risk buffer (a buffer to prevent systemic or macro prudential risks). With the entry into force of the Single Supervisory Mechanism (the “**SSM**”) on November 4, 2014, the ECB also has the ability to provide certain recommendations in this respect.

The Bank of Spain agreed in December 2015 to set the countercyclical capital buffer applicable to credit exposures in Spain at 0% from January 1, 2016. These percentages are revised each quarter and, accordingly, the Bank of Spain agreed in March 2017 to maintain the countercyclical capital buffer at 0% for the second quarter of 2017.

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

In accordance with the SSM Framework Regulation, the ECB has fully assumed its new supervisory responsibilities of BBVA and the Group within the SSM. The ECB is required under the SSM Framework Regulation to carry out a supervisory review and evaluation process (the “**SREP**”) of BBVA and the Group at least on an annual basis.

In addition to the above, the European Banking Authority (the “**EBA**”) published on December 19, 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the “**EBA SREP Guidelines**”). Included in this were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional “Pillar 2” own funds requirements to be implemented from January 1, 2016. Under these guidelines, national supervisors should set a composition requirement for the “Pillar 2” requirements to cover certain specified risks of at least 56% CET1 capital and at least 75% Tier 1 capital, as it has also been included in the EU Banking Reforms. 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.

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

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As a result of the most recent SREP carried out by the ECB in 2016, the Bank has been informed by the ECB that, effective from January 1, 2017, it is required to maintain (i) a CET1 phased-in capital ratio of 7.625% (on a consolidated basis) and 7.25% (on an individual basis); and (ii) a phased-in total capital ratio of 11.125% (on a consolidated basis) and 10.75% (on an individual basis).

This phased-in total capital ratio of 11.125 % on a consolidated basis includes (i) the minimum CET1 capital ratio required under “Pillar 1” (4.5%); (ii) the “Pillar 1” Additional Tier 1 capital requirement (1.5%); (iii) the “Pillar 1” Tier 2 capital requirement (2.0%); (iv) the additional CET1 capital requirement under “Pillar 2” (1.5%); (v) the capital conservation buffer (1.25% CET1); and (vi) the D-SIBs buffer (0.375% CET1).

As of December 31, 2016, the Bank’s phased-in total capital ratio was 15.14% on a consolidated basis and 21.83% on an individual basis. As of December 31, 2016, the Bank’s CET1 phased-in capital ratio was 12.18% on a consolidated basis and 17.56% on an individual basis. Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements imposed on the Bank and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further “Pillar 2” additional own funds requirements on the Bank and/or the Group.

The EU Banking Reforms propose new requirements that capital instruments should meet in order to be considered as Additional Tier 1 instruments or Tier 2 instruments. In accordance with the EU Banking Reforms, these new requirements are not subject to a grandfathering or exemption regime for currently issued Additional Tier 1 instruments and/or Tier 2 instruments. As a result, such instruments could be subject to regulatory uncertainties on their eligibility as capital if the EU Banking Reforms are approved in the form in which they were originally published, which may lead to regulatory capital shortfalls and ultimately a breach of the applicable minimum regulatory capital requirements.

Any failure by the Bank and/or the Group to 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 the Bank and/or the Group is or becomes subject (including the “combined buffer requirement”), may result in the imposition of restrictions or prohibitions on “discretionary payments” by the Bank as discussed below.

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

Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014, aimed at strengthening own funds or limiting or prohibiting the distribution of dividends respectively will also restrict discretionary payments to such MDA. Pursuant to the EU Banking Reforms, MDA could also be affected by a breach of MREL (as defined below) (see “– Any failure by the Bank and/or the Group to comply with its minimum requirement for own funds and eligible liabilities (MREL) could have a material adverse effect on the Bank’s business, financial condition and results of operations.” below).

As set out in the “Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions” published on December 16, 2015 (the “**December 2015 EBA Opinion**”), in the EBA’s opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the “combined buffer requirement” for the purposes of the MDA calculation is limited to the amount not used to meet the “Pillar 1” and, if applicable, “Pillar 2” own

funds requirements of the institution. In addition, the December 2015 EBA Opinion advises the European Commission (i) to review Article 141 of the CRD IV Directive with a view to avoiding differing interpretations of Article 141(6) and ensure greater consistency between the maximum distributable amount framework and the capital stacking order described in the opinion and in the EBA SREP Guidelines by which the “Pillar 1” and, if applicable, “Pillar 2” capital requirements represent the minimum capital to be preserved at all times by an institution and it is only the CET1 capital of that institution not used to meet its “Pillar 1” and, if applicable, “Pillar 2” requirements that is then available to meet the “combined buffer requirement” of the institution and (ii) to review the prohibition on distributions in all circumstances where an institution fails to meet the “combined buffer requirement” and no profits are made in any given year, notably insofar as it relates to Additional Tier 1 instruments. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements. The EU Banking Reforms propose certain amendments in order to clarify, for the purposes of restrictions on distributions, the hierarchy between the “Pillar 2” additional own funds requirements, the minimum “own funds” “Pillar 1” requirements, the own funds and eligible liabilities requirement, MREL requirements and the “combined buffer requirements” (which is referred to as “stacking order”). Furthermore, pursuant to the EU Banking Reforms, an institution would not be entitled to make distributions relating to CET1 capital or payments in respect of variable remuneration or discretionary pension revenues, before having made the payments due on Additional Tier 1 instruments.

On July 1, 2016, the EBA published additional information explaining how supervisors intend to use the results of an EU-wide stress test for SREP in 2016 (which results were published on July 29, 2016). The EBA stated, among other things, that the incorporation of the quantitative results of the EU-wide stress test into SREP assessments may include setting additional supervisory monitoring metrics in the form of capital guidance. Such guidance will not be included in MDA calculations but competent authorities would expect banks to meet that guidance except when explicitly agreed. Competent authorities have remedial tools if an institution refuses to follow such guidance. The EU Banking Reforms also propose that a distinction be made between “Pillar 2” capital requirements and guidance, with only the former being mandatory requirements. Notwithstanding the foregoing, the EU Banking Reforms propose that supervisory authorities be entitled to impose further “Pillar 2” capital requirements where an institution repeatedly fails to follow the guidance previously imposed.

The ECB has also set out in its recommendation of December 13, 2016 on dividend distribution policies that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements.

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further “Pillar 2” requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of June 18 on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015 de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended, replaced or supplemented from time to time (“**Law 11/2015**”), which, together with Royal Decree 1012/2015 of November 6 by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996 of December 20 on credit entities’ deposit guarantee fund is amended (“**RD 1012/2015**”), has implemented the BRRD into Spanish law. See “– Bail-in and write-down powers under the BRRD may adversely affect our business and the value of any securities we may issue” below.

At its meeting of January 12, 2014, the oversight body of the Basel Committee on Banking Supervision (“**BCBS**”) endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from January 1, 2015. 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. The proposed revisions to the design and calibration of the leverage ratio were set out in the BCBS April 2016 consultation paper entitled “Revisions to the Basel III leverage ratio framework”. The consultation period ended on July 6, 2016, and BCBS shall finalize the calibration of the leverage ratio for it to be implemented by January 1, 2018. The EU Banking Reforms propose a binding leverage ratio requirement of 3% of Tier 1 capital that is added to an institution’s own funds requirements and that an institution must meet in addition to its risk based requirements.

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

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

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

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

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorization; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances). The determination that an institution is no longer viable may depend on a number of factors which may be outside of that institution's control.

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the "FROB"), the Single Resolution Mechanism ("SRM") or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission or any other entity with the authority to exercise any such tools and powers from time to time (each, a "Relevant Spanish Resolution Authority") as appropriate, considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe and (c) a resolution action is in the public interest. The four resolution tools are (i) sale of business, which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution, which enables resolution authorities to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the institution to meet its repayment obligations; (iii) asset separation, which enables resolution authorities to transfer impaired or problem assets to one or more asset management vehicles to allow them to be managed with a view to maximizing their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in, by which the Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power (as defined below). This includes the ability of the Relevant Spanish Resolution Authority to write down and/or convert into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) any obligation of an institution.

The "Spanish Bail-in Power" is any write-down, conversion, transfer, modification or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including but not limited to (i) Law 11/2015, as amended from time to time; (ii) RD 1012/2015, as amended from time to time; (iii) the SRM

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Regulation, as amended from time to time; and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced (which may result in the reduction of the relevant claim to zero), cancelled, modified, transferred or converted into shares, other securities, or other obligations of such institution or any other person (or suspended for a temporary period).

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order: (i) CET1 instruments; (ii) Additional Tier 1 instruments; (iii) Tier 2 instruments; (iv) other subordinated claims that do not qualify as Additional Tier 1 capital or Tier 2 capital; and (v) the eligible senior claims prescribed in Article 41 of Law 11/2015.

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

Any application of the Spanish Bail-in Power or Non-Viability Loss Absorption under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings (unless otherwise provided by the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank and/or the Group, including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect in Spain (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group)).

To the extent that any resulting treatment of a holder of the Bank's securities pursuant to the exercise of the Spanish Bail-in Power or Non-Viability Loss Absorption is less favorable than would have been the case under such hierarchy in normal insolvency proceedings, a holder of such affected securities would have a right to compensation under the BRRD based on an independent valuation of the institution. Any such compensation is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the affected securities.

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

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

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

In addition, the EBA's preparation of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines is pending. These acts could be potentially relevant to determining when or how a Relevant Spanish Resolution Authority may exercise the Spanish Bail-in Power. The pending acts include guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments, and on the rate of conversion of debt to equity or other securities or obligations in any bail-in. No assurance can be given that, once adopted, these standards will not be detrimental to the rights under, and the value of unsecured debt securities, subordinated obligations and shares issued by us.

Any failure by the Bank and/or the Group to comply with its minimum requirement for own funds and eligible liabilities (MREL) could have a material adverse effect on the Bank's business, financial condition and results of operations

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

The MREL requirement came into force on January 1, 2016. However, the EBA has recognized the impact which this requirement may have on banks' funding structures and costs, and the MREL Delegated Regulation states that the resolution authorities shall determine an appropriate transitional period but that this shall be as short as possible. As part of the EU Banking Reforms, the European Commission published on November 23, 2016 a Proposal for a Directive of the European Parliament and the Council on amendments to the BRRD as regards the ranking of unsecured debt instruments in the insolvency hierarchy (the "MREL Proposal"). The MREL Proposal proposes to harmonize national laws on recovery and resolution of credit institutions and investment firms, in particular as regards their loss-absorbency and recapitalization capacity in resolution, and proposes the creation of a new asset class of "non-preferred" senior debt that should only be bailed-in after other capital instruments but before other senior liabilities. The MREL Proposal anticipates that Member States will transpose the proposed amendments into the BRRD in their national laws by approximately June 2017 and that banks to which the amendments apply will have to comply with the amended rules by approximately July 2017.

The EU Banking Reforms establish the new conditions that would need to be met by an instrument so that it can be considered as an eligible liability and which would then be used to comply with MREL requirements. In addition, the EU Banking Reforms establish some exemptions which could allow outstanding senior debt

instruments to be used to comply with MREL requirements. However, there is uncertainty regarding the final form of the EU Banking Reforms insofar as such eligibility is concerned and how those regulations and exemptions are to be interpreted and applied. This uncertainty may impact upon the ability of the Bank to comply with its MREL requirements (at both individual and consolidated levels) on due date.

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

In this regard, the EBA submitted on December 14, 2016 a final report on the implementation and design of the MREL framework (the “**EBA MREL Report**”), which contains a number of recommendations to amend the current MREL framework. Additionally, the EU Banking Reforms contain the legislative proposal of the European Commission for the amendment of the MREL framework and the implementation of the TLAC standards. The EU Banking Reforms propose the amendment of a number of aspects of the MREL framework to align it with the TLAC standards included in the TLAC Principles and Term Sheet. To maintain coherence between the MREL rules applicable to G-SIBs and those applicable to non-G-SIBs, the EU Banking Reforms also propose a number of changes to the MREL rules applicable to non-G-SIBs. While the EU Banking Reforms propose for a minimum harmonized or “Pillar 1” MREL requirement for G-SIBs, in the case of non-G-SIBs, it is proposed that MREL requirements will be imposed on a bank-specific basis. For G-SIBs, it is also proposed that a supplementary or “Pillar 2” MREL requirement may be further imposed on a bank-specific basis. The EU Banking Reforms further provide for the resolution authorities to give guidance to an institution to have own funds and eligible liabilities in excess of the requisite levels for certain purposes.

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

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

Furthermore, in accordance with the EBA MREL Report, the EBA recommends that resolution authorities and competent authorities should engage in active monitoring of compliance with their respective requirements and considers that (i) the powers of resolution authorities to respond to a breach of MREL should be enhanced (which would require resolution authorities to be given the power to require the preparation and execution of an MREL restoration plan, to use their powers to address impediments to resolvability, to request that distribution restrictions be imposed on an institution by a competent authority and to request a joint restoration plan in cases where an institution breaches both MREL and minimum capital requirements); (ii) competent authorities should also respond to breaches of minimum capital requirements and MREL; (iii) resolution authorities should assume a lead role in responding to a failure to issue or roll over MREL-eligible debt leading to a breach of MREL; (iv) if there are both losses and a failure to roll over or issue MREL-eligible debt, both the relevant resolution authority and relevant competent authority should attempt to agree on a joint restoration plan (provided that both authorities believe that the institution is not failing or likely to fail); and (v) resolution and competent authorities should closely cooperate

and coordinate. The EU Banking Reforms also provide for resolution and competent authorities to consult each other in the exercise of their respective powers in relation to any breaches of MREL. In addition, under the EBA Guidelines on triggers for use of early intervention measures of May 8, 2015 a significant deterioration in the amount of eligible liabilities and own funds held by an institution for the purposes of meeting its MREL requirements may put an institution in a situation where conditions for early intervention are met, which may result in the application by the competent authority of early intervention measures.

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

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

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

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

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

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

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

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

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 the Bank operates.

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.

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

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

In addition, since 2016, the Bank has been required to make contributions directly to the EU Single Resolution Fund, once the National Resolution Fund has been integrated into it, and will have to pay supervisory fees to the SSM and the SRM. See *"Regulatory developments related to the EU fiscal and banking union may have a material adverse effect on the Bank's business, financial condition and results of operations"*.

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

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

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

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

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

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. The new supervisor is 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 form part of the SSM. Several steps have already been taken in this regard, such as the publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. The SRM Regulation, which was passed on July 15, 2014 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 on January 1, 2015 and fully assumed its resolution powers on January 1, 2016. The Single Resolution Fund has also been in place since January 1, 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the European

Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8% bail-in of a bank's total liabilities including own funds has been applied to cover capital shortfalls (in line with the BRRD).

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

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as the Bank's main supervisory authority may have a material effect on the Bank's business, financial condition and results of operations. In particular, the BRRD and Directive 2014/49/EU of the European Parliament and the Council of April 16, 2014 on deposit guarantee schemes were published in the Official Journal of the EU on June 12, 2014. The BRRD was implemented into Spanish law through Law 11/2015 and RD 1012/2015. In addition, on January 29, 2014, the European Commission released its proposal on the structural reforms of the European banking sector, which will impose new constraints on the structure of European banks. The proposal is aimed at ensuring the harmonization between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd-Frank Act (also known as the Volcker Rule) and a mechanism to potentially require the separation of trading activities (including market-making), such as in the Financial Services (Banking Reform) Act 2013, complex securitizations and risky derivatives.

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

The Group's anti-money laundering and anti-terrorism 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.

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

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

Although the Bank has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that its employees, directors, officers, partners, agents and service providers will not take actions in

violation of the Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which it or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Bank, limits being placed on the Bank's activities, the Bank's authorizations and licenses being revoked, damage to the Bank's reputation and other consequences that could have a material adverse effect on the Bank's business, results of operations and financial condition. Further, litigation or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

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

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

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

Liquidity and Financial Risks

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

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

The Bank's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, such as the closure of financial markets and uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, the Group's ability to meet its financial obligations as they fall due or to 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.

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

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

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

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 apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and, since January 2015, is being phased-in until 2019. Currently the banks to which this standard applies must comply with a minimum LCR requirement of 70% and gradually increase the ratio by 10 percentage points per year to reach 100% by January 2019.

The BCBS's net stable funding ratio ("NSFR") has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplates that the NSFR, including any revisions, will be implemented by member countries as a minimum standard by January 1, 2018, with no phase-in scheduled. The EU Banking Reforms propose the introduction of a harmonized binding requirement for the NSFR across the EU that will apply two years after the date of entry into force of the amending regulation at a level of 100%.

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

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

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

Non-performing or low credit quality loans have in the past and can continue to negatively affect the Bank's results of operations. The Bank cannot assure that it will be able to effectively control the level of the impaired loans in its total loan portfolio. At present, default rates are partly cushioned by low rates of interest which have improved customer affordability, but the risk remains of increased default rates as interest rates start to rise. The timing, quantum and pace of any rise 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, including cases of negative reference rates, can affect the interest rates that the Group receives on its interest-earning assets differently to the rates that it pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income the Group receives, which could have a material adverse effect on its results of operations.

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

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

The Group's commitments with personnel which are considered to be wholly unfunded are recognized under the heading "Provisions—Provisions for Pensions and Similar Obligations" in its consolidated balance sheets included in the Consolidated Financial Statements. For more information please see Note 25 to 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.

The Bank 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

The Bank is rated by various credit rating agencies. The Bank's credit ratings are an assessment by rating agencies of its ability to pay its obligations when due. Any actual or anticipated decline in the Bank's credit ratings to below investment grade or otherwise may increase the cost of and decrease the Group's ability to finance itself in the capital markets, secured funding markets (by affecting its ability to replace downgraded assets with better-rated ones), or interbank markets, through wholesale deposits or otherwise, harm its reputation, require it to replace funding lost due to the downgrade, which may include the loss of customer deposits, and make third parties less willing to transact business with the Group or otherwise materially adversely affect its business, financial condition and results of operations. Furthermore, any decline in the Bank's 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 has created increased risk in the Spanish banking system. In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to upward movements in interest rates and the profitability of the loans more vulnerable to interest rate decreases. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on the Group's loan portfolio and, as a result, on its financial condition and results of operations. Moreover, the increase in households' and businesses' indebtedness also limits their ability to incur additional debt, reducing the number of new products that the Group may otherwise be able to sell to them and limiting the Group's ability to attract new customers who satisfy its credit standards, which could have an adverse effect on the Group's ability to achieve its growth plans.

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

Some of the Group's operations are conducted through its financial services subsidiaries. As a result, the Bank's ability to pay dividends, to the extent the Bank decides to do so, depends in part on the ability of the Group's subsidiaries to generate earnings and to pay dividends to BBVA. Payment of dividends, distributions and advances by the Group's subsidiaries 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, the Bank's right to receive any assets of any of the Group's subsidiaries as an equity holder of such subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of subsidiaries' creditors, including trade creditors. The Group also has to comply with increased capital requirements, which could result in the imposition of restrictions or prohibitions on discretionary payments including the payment of dividends (see *"–Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations"*).

Business and Industry Risks***The Group faces increasing competition in its business lines***

The markets in which the Group operates are highly competitive and this trend will likely continue with new business models likely to be developed in coming years which impact is unforeseeable. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the Group must now compete.

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

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

The Group faces risks related to its acquisitions and divestitures

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

The Group's results of operations could also be negatively affected by acquisition or divestiture-related charges, amortization of expenses related to intangibles and charges for impairment of long-term assets. The Group may be subject to litigation in connection with, or as a result of, acquisitions or divestitures, including claims from terminated employees, customers or third parties, and the Group may be liable for future or existing litigation and claims related to the acquired business 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 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, the Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in jurisdictions around the world, the financial outcome of which is unpredictable, particularly where the 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. 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 has provisioned such risks based on its assessment of such matters 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, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations. See "Item 8. Financial information—Consolidated Statements and Other Financial Information—Legal proceedings" and Note 24 to the Bank'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, Turkey and Argentina, which represented 12.63%, 11.42%, 11.61% and 1.25% of the Group's assets as at December 31, 2016, respectively.

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

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

Financial, Reporting and Other Operational Risks

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

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out 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. 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 the Bank, 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 the Bank, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.