

Prospectus dated 29th March, 2019



**Banco Bilbao Vizcaya Argentaria, S.A.**

*(incorporated with limited liability under the laws of Spain)*

**Series 8 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible**

**Perpetual Preferred Tier 1 Securities**

**Issue price: 100 per cent.**

The Series 8 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference each (the **Preferred Securities**) were issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank** or **BBVA**) on 29th March, 2019 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Group**.

The Preferred Securities will accrue non-cumulative cash distributions (**Distributions**) (i) in respect of the period from (and including) the Closing Date to (but excluding) 29th March, 2024 (the **First Reset Date**) at the rate of 6.00 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Period**), at the rate per annum, converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.039 per cent. per annum and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Preferred Securities (the **Conditions**)) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrear on 29th June, 29th September, 29th December and 29th March in each year (each a **Distribution Payment Date**).

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank at any time on or after the First Reset Date, at the liquidation preference of €200,000 per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4, an amount equal to accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the **Redemption Price**), subject to the prior consent of the Regulator (as defined in the Conditions), if required, and otherwise in accordance with Applicable Banking Regulations (as defined in the Conditions) then in force. The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time if there is a Capital Event or a Tax Event (each as defined in the Conditions).

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and for any (or no) reason, including as further provided in Condition 4. Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities then the right of the Holders to receive the relevant Distribution (or part thereof) will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) or otherwise to pay any interest in respect of the Preferred Securities, whether or not any future Distributions on the Preferred Securities are paid. For further information, see Condition 4.

**If, at any time, the CET1 ratio (as defined in the Conditions) is less than 5.125 per cent. as determined by the Bank (a Trigger Event), the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank (Common Shares) at the Conversion Price (as defined in the Conditions). In the event of the liquidation or winding-up of the Bank, Holders will be entitled to receive (subject as provided in the Conditions), in respect of each Preferred Security, their respective liquidation preference of €200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the liquidation distribution.**

In addition, in the event of a Capital Reduction (as defined in the Conditions), the Preferred Securities are mandatorily and irrevocably convertible into Common Shares unless a Holder elects that the Preferred Securities held by it shall not be so converted by delivery of a duly completed and signed Election Notice on or before the 10th Business Day immediately following the Capital Reduction Notice Date (each as defined in the Conditions).

The Preferred Securities have been assigned a rating of Ba2 by Moody's Investors Services España, S.A. (**Moody's**) and a rating of BB by Fitch Ratings España, S.A.U. (**Fitch**). The Bank has been rated A3 by Moody's, A- by S&P Global Ratings Europe Limited (**S&P**) and A- by Fitch. Each of Moody's, S&P and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

This document constitutes a listing prospectus (the **Prospectus**) for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the **EU**), as amended and implemented in Spain (the **Prospectus Directive**) and has been prepared in accordance with, and including the information required by, Annexes I, III (sections 3.1 and 3.2), XIII and XIV of Regulation (EC) No. 809/2004 (the **Prospectus Regulation**). This Prospectus has been approved by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (the **CNMV**) in its capacity as competent authority under the Prospectus Directive and its implementing measures in Spain, including the Spanish Securities Market Act (Royal Legislative Decree 4/2015, of 23rd October, approving the consolidated text of the Spanish Securities Market Act; the **LMV**).

Application has been made for the Preferred Securities to be admitted to listing and trading on the Spanish AIAF Fixed Income Securities Market (**AIAF**). If a qualified investors platform were to be developed by AIAF, it is the intention of the Bank for the Preferred Securities to be quoted on such platform. The Preferred Securities may also be admitted to listing and trading on any other secondary market as may be agreed by the Bank.

Amounts payable under the Preferred Securities from and including the First Reset Date are calculated by reference to the 5-year Mid-Swap Rate (as defined in the Conditions) which appears on the "ICESWAP2" page, which is provided by ICE Benchmark Administration Limited. As at the date of this Prospectus, ICE Benchmark Administration Limited is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**).

**An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "Risk Factors" beginning on page 14.**

**The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. The Preferred Securities shall not be offered, sold or otherwise made available to retail clients in any jurisdiction of the European Economic Area (the EEA), as defined in the rules set out in Directive 2014/65/EU (as amended, MiFID II). Prospective investors are referred to the section headed "Prohibition on marketing and sales to retail investors" on pages 4 to 6 of this Prospectus for further information.**

**MiFID II professionals/ECPs-only/No PRIIPs KID/FCA PI RESTRICTION – Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels). The target market assessment indicates that the Preferred Securities are incompatible with the knowledge, experience, needs, characteristic and objectives of retail clients and accordingly the Preferred Securities shall not be offered or sold to any retail clients. No packaged retail and insurance-based investment products (PRIIPs) key information document (KID) has been prepared as the Preferred Securities are not available to retail investors in the EEA.**

The Preferred Securities and any Common Shares to be issued and delivered in the event of any Conversion (as defined in the Conditions) have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to United States tax law requirements. Any offering of the Preferred Securities has been and is being made outside the United States in accordance with Regulation S under the Securities Act (**Regulation S**), and the Preferred Securities may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**Joint Bookrunners**

**Banco Bilbao Vizcaya Argentaria, S.A.**

*(no underwriting commitment)*

**Citigroup**

**Deutsche Bank**

**BNP PARIBAS**

**Crédit Agricole CIB**

**HSBC**

*Co-Manager*  
**Bankinter**

*This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.*

*Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner, the **Joint Lead Manager**), BNP Paribas, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch and HSBC Bank plc (the **Joint Bookrunners**) and Bankinter, S.A. (the **Co-Manager**, and together with the Joint Lead Manager and the Joint Bookrunners, the **Managers**) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Bank in connection with the Preferred Securities or their distribution.*

*The Bank has not authorised the making or provision of any representation or information regarding the Bank or the Preferred Securities other than as contained in this Prospectus or as approved for such purpose by the Bank. Any such representation or information should not be relied upon as having been authorised by the Bank or the Managers.*

*Neither the delivery of this Prospectus nor the offering or delivery of any Preferred Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Bank since the date of this Prospectus.*

*None of the Managers or any of their respective affiliates, or any of their respective directors, officers, employees or agents, to the extent permitted by applicable law, accepts any responsibility whatsoever for the contents of this Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Bank or any offering of the Preferred Securities. The Managers and any of their respective affiliates accordingly disclaim to the extent permitted by applicable law, all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of any such contents or statement. No representation or warranty express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this Prospectus.*

*The Managers are acting exclusively for the Bank and no one else in connection with any offering of the Preferred Securities. The Managers will not regard any other person (whether a recipient of this Prospectus or otherwise) as their client in relation to any such offering and will not be responsible to anyone other than the Bank for providing the protections afforded to their clients or for giving advice in relation to such offering or any transaction or arrangement referred to herein.*

*This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase by or on behalf of, the Bank or the Managers any Preferred Securities.*

*The distribution of this Prospectus and the offering and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank and the Managers to inform themselves about and to observe any such restrictions.*

*The Preferred Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Preferred Securities may not be offered, sold or delivered in the United States or to U.S. persons.*

*In this Prospectus, unless otherwise specified, references to **€**, **EUR** or **euro** are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to **USD** or **U.S. dollars** are to the currency of the United States; references to **Mexican peso** refer to the lawful currency for the time being of the United Mexican States; and references to **Turkish lira** or **TL** refer to the lawful currency for the time being of the Republic of Turkey.*

Words and expressions defined in the Conditions (see "Conditions of the Preferred Securities") shall have the same meanings when used elsewhere in this Prospectus unless otherwise specified.

This Prospectus may only be used for the purposes for which it has been published. No person is authorised to give information other than that contained herein and in the documents incorporated by reference herein and which are made available for inspection by the public at the registered office of the Bank.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein. A potential investor should not invest in the Preferred Securities unless it has the expertise (either alone or with its financial and other professional advisers) to evaluate how the Preferred Securities will perform under changing conditions, the resulting effects on the value of the Preferred Securities and the impact this investment will have on the potential investor's overall investment portfolio. See further "Risk Factors – Risks related to the Preferred Securities generally – The Preferred Securities may not be a suitable investment for all investors". If a potential investor is in any doubt about any of the contents of this Prospectus, it should obtain independent professional advice.

**MiFID II product governance/Professional clients and ECPs as the only target market/negative target market** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Preferred Securities has led to the conclusion that: (i) the target market for the Preferred Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Preferred Securities to eligible counterparties and professional clients are appropriate. The target market assessment indicates that the Preferred Securities are incompatible with the knowledge, experience, needs, characteristic and objectives of clients which are retail clients (as defined in MiFID II) and accordingly the Preferred Securities shall not be offered or sold to any retail clients. Any person subsequently offering, selling or recommending the Preferred Securities (a **distributor**) should take into consideration the manufacturers' target market assessment. However, a distributor subject to MiFID II is responsible, among other things, for undertaking its own target market assessment in respect of the Preferred Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**Prohibition of sales to EEA retail investors** – The Preferred Securities shall not be offered, sold or otherwise made available to any retail investor in the EEA. A **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document (KID) required by Regulation (EU) No. 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Preferred Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### **Prohibition on marketing and sales to retail investors**

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Preferred Securities to retail investors (as defined above). Each of the Managers has represented and agreed that offers of the Preferred Securities in the EEA shall only be directed specifically at or made to professional clients (*clientes profesionales*) as defined in point (10) of Article 4(1) of MiFID II.

In particular, in June 2015, the United Kingdom Financial Conduct Authority (the **FCA**) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument

2015, which took effect from 1st October, 2015 (the **PI Instrument**). In addition, (i) on 1st January, 2018, the PRIIPs Regulation became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3rd January, 2018 and was implemented in Spain through Royal Decree-Law 14/2018 of 28th September and Royal Decree 1464/2018 of 21st December. Together the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the **Regulations**.

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities such as the Preferred Securities.

Each of the Bank and the Managers are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Preferred Securities (or a beneficial interest in such Preferred Securities) from the Bank and/or any Managers, each prospective investor will be deemed to represent, warrant, acknowledge, consent, accept, agree with and undertake to the Bank and each of the Managers that:

- (a) it is not a retail client (as defined in MiFID II);
- (b) whether or not it is subject to the Regulations, it will not:
  - (I) sell or offer the Preferred Securities (or any beneficial interests therein) to any retail clients (as defined in MiFID II); or
  - (II) communicate (including the distribution of this Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (in each case within the meaning of MiFID II).

*In selling or offering the Preferred Securities or making or approving communications relating to the Preferred Securities, it may not rely on the limited exemptions set out in the PI Instrument; and*

- (c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Preferred Securities (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Preferred Securities (or any beneficial interests therein) from the Bank and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Preferred Securities (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients only;
- (ii) the target market assessment indicates that the Preferred Securities are incompatible with the knowledge, experience, needs, characteristic and objectives of clients which are retail clients

*(as defined in MiFID II) and accordingly the Preferred Securities shall not be offered or sold to any retail clients; and*

- (iii) no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Preferred Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.*

*Each potential investor in the Preferred Securities should inform itself of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Preferred Securities (or any beneficial interests therein), including the Regulations.*

*Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Preferred Securities (or any beneficial interests therein) from the Bank and/or the Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.*

***Product Classification Pursuant to Section 309B of the Securities and Futures Act (Chapter 289 Of Singapore)***

*In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Bank has determined the classification of the Preferred Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

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## SUMMARY OF THE PREFERRED SECURITIES

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary for the Preferred Securities and the Bank. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in a summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element should be included in the summary explaining why it is not applicable.

### Section A – Introduction and warnings

Element	
A.1	<ul style="list-style-type: none"><li>• This summary should be read as an introduction to the Prospectus.</li><li>• Any decision to invest in any Preferred Securities should be based on a consideration of this Prospectus as a whole, including any documents incorporated by reference.</li><li>• Where a claim relating to information contained in the Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.</li><li>• Civil liability attaches to the Bank solely on the basis of this summary, including any translation of it, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or, following the implementation of the relevant provisions of Directive 2010/73/EU in the relevant Member State, it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Preferred Securities.</li></ul>
A.2	Not Applicable - the Preferred Securities are being offered in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus.



## Section B – Issuer

Element	Title	
<b>B.1</b>	Legal and commercial name of the issuer	The legal name of the issuer is Banco Bilbao Vizcaya Argentaria, S.A (the <b>Bank</b> ). It conducts its business under the commercial name ‘BBVA’.
<b>B.2</b>	Domicile/ legal form/ legislation/ country of incorporation	The Bank is a limited liability company (a <i>sociedad anónima</i> or S.A.) and was incorporated under the Spanish Corporations Law on 1st October, 1988. It has its registered office at Plaza de San Nicolás 4, 48005 Bilbao, Spain, and has its main place of business at Calle Azul, 4, 28050, Madrid, Spain.
<b>B.3</b>	Key factors relating to the nature of the issuer’s current operations and its principal activities	<p>The Bank is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management, private banking and wholesale banking. It also has investments in some of Spain’s leading companies.</p> <p>Set forth below are the Group’s current seven operating segments:</p> <ul style="list-style-type: none"> <li>• Banking Activity in Spain</li> <li>• Non-Core Real Estate (until March 2017, this operating segment was named Real Estate Activity in Spain)</li> <li>• Turkey</li> <li>• Rest of Eurasia</li> <li>• Mexico</li> <li>• South America</li> <li>• United States</li> </ul> <p>In addition to the operating segments referred to above, the Group has a Corporate Center which includes those items that have not been allocated to an operating segment.</p>
<b>B.4a</b>	Trend information	Not Applicable – There are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Bank's prospects for its current financial year.
<b>B.5</b>	Description of the Group	<p>The Group is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management, private banking and wholesale banking. It also has investments in some of Spain’s leading companies.</p> <p>As of 31<sup>st</sup> December, 2018, the Group was composed of 297 consolidated entities and 66 entities accounted for using the equity method.</p> <p>The companies are principally domiciled in the following countries: Argentina, Belgium, Bolivia, Brazil, Chile, Colombia, France, Germany, Ireland, Italy, Mexico, Netherlands, Peru, Poland, Spain, Switzerland, Turkey, United Kingdom, United States of America,</p>

Element	Title																																																								
		Uruguay and Venezuela. In addition, BBVA has an active presence in Asia.																																																							
<b>B.6</b>	Interest in the issuer's capital or voting rights	On 18th October, 2017, Blackrock, Inc. communicated that it held an indirect interest of 5.939 per cent. in the Bank's share capital. As of 31st December, 2018, no other person, corporation or government beneficially owned, directly or indirectly, five per cent. or more of the Bank's share capital. The Bank's major shareholders do not have voting rights which are different from those held by the rest of its shareholders. To the extent known to the Bank, the Bank is not controlled, directly or indirectly, by any other corporation, government or any other natural or legal person.																																																							
<b>B.7</b>	<p><b>Selected historical key financial information:</b></p> <p>The following tables summarise the Bank's consolidated income statements and balance sheets as at and for each of the years ended 31 December 2018, 2017 and 2016. The financial information for the years ended 31 December 2018, 2017 and 2016 was extracted without material adjustment from the Bank's consolidated audited financial statements as at and for the years ended 31 December 2018, 2017 and 2016.</p> <p><b>Income Statements</b></p> <table border="1"> <thead> <tr> <th rowspan="2">EUR million</th> <th colspan="3">For the year ended 31st December</th> </tr> <tr> <th>2018</th> <th>2017</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td><b>Gross income</b>.....</td> <td><b>23,747</b></td> <td><b>25,270</b></td> <td><b>24,653</b></td> </tr> <tr> <td>Administration costs.....</td> <td>(10,494)</td> <td>(11,112)</td> <td>(11,366)</td> </tr> <tr> <td>Depreciation and amortization .....</td> <td>(1,208)</td> <td>(1,387)</td> <td>(1,426)</td> </tr> <tr> <td>Provisions or reversal of provisions</td> <td>(373)</td> <td>(745)</td> <td>(1,186)</td> </tr> <tr> <td>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss or net gains by modification</td> <td>(3,981)</td> <td>(4,803)</td> <td>(3,801)</td> </tr> <tr> <td><b>Net Operating Income</b> .....</td> <td><b>7,691</b></td> <td><b>7,222</b></td> <td><b>6,874</b></td> </tr> <tr> <td>Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates) .....</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Impairment or reversal of impairment on non-financial asset</td> <td>(138)</td> <td>(364)</td> <td>(521)</td> </tr> <tr> <td>Gains (losses) on derecognition of non-financial assets, net.....</td> <td>78</td> <td>47</td> <td>70</td> </tr> <tr> <td>Profit (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations .....</td> <td>815</td> <td>26</td> <td>(31)</td> </tr> <tr> <td><b>Profit or loss before tax from continuing operations before tax</b>.....</td> <td><b>8,446</b></td> <td><b>6,931</b></td> <td><b>6,392</b></td> </tr> <tr> <td>Tax expense or income related to profit or loss from continuing operation.....</td> <td>(2,295)</td> <td>(2,169)</td> <td>(1,699)</td> </tr> </tbody> </table>		EUR million	For the year ended 31st December			2018	2017	2016	<b>Gross income</b> .....	<b>23,747</b>	<b>25,270</b>	<b>24,653</b>	Administration costs.....	(10,494)	(11,112)	(11,366)	Depreciation and amortization .....	(1,208)	(1,387)	(1,426)	Provisions or reversal of provisions	(373)	(745)	(1,186)	Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss or net gains by modification	(3,981)	(4,803)	(3,801)	<b>Net Operating Income</b> .....	<b>7,691</b>	<b>7,222</b>	<b>6,874</b>	Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates) .....	-	-	-	Impairment or reversal of impairment on non-financial asset	(138)	(364)	(521)	Gains (losses) on derecognition of non-financial assets, net.....	78	47	70	Profit (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations .....	815	26	(31)	<b>Profit or loss before tax from continuing operations before tax</b> .....	<b>8,446</b>	<b>6,931</b>	<b>6,392</b>	Tax expense or income related to profit or loss from continuing operation.....	(2,295)	(2,169)	(1,699)
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Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates) .....	-	-	-																																																						
Impairment or reversal of impairment on non-financial asset	(138)	(364)	(521)																																																						
Gains (losses) on derecognition of non-financial assets, net.....	78	47	70																																																						
Profit (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations .....	815	26	(31)																																																						
<b>Profit or loss before tax from continuing operations before tax</b> .....	<b>8,446</b>	<b>6,931</b>	<b>6,392</b>																																																						
Tax expense or income related to profit or loss from continuing operation.....	(2,295)	(2,169)	(1,699)																																																						

Element	Title			
	<b>Profit or loss after tax from continuing operations</b> .....	<b>6,151</b>	<b>4,762</b>	<b>4,693</b>
	Profit or loss after tax from discontinued operations, net .....	-	-	-
	<b>Profit for the year</b> .....	<b>6,151</b>	<b>4,762</b>	<b>4,693</b>
	<b>Balance Sheet</b>			
		<b>As at 31st December</b>		
	<b>EUR million</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	Cash, cash balances at central banks and other demand deposits .....	58,196	42,680	40,039
	Financial Assets held for trading .....	90,117	64,695	74,950
	Non-trading financial assets designated at fair value through profit or loss.....	5,135		
	Financial Assets designated at fair value through profit or loss .....	1,313	2,709	2,062
	Financial assets at fair value through other comprehensive income.....	56,337	69,476	79,221
	Financial assets at amortized cost.....	419,660	445,275	483,672
	Hedging Derivatives.....	2,892	2,485	2,833
	Fair value changes of the hedged items in portfolio hedges of interest rate risk .....	(21)	(25)	17
	Joint ventures and associates .....	1,578	1,588	765
	Insurance and reinsurance assets	366	421	447
	Tangible assets .....	7,229	7,191	8,941
	Intangible Assets	8,314	8,464	9,786
	Tax Assets	18,100	16,888	18,245
	Other Assets	5,472	4,359	7,274
	Non-current assets and disposal groups held for sale	2,001	23,853	3,603
	<b>Total Assets</b> .....	<b>676,689</b>	<b>690,059</b>	<b>731,856</b>
	Financial Liabilities held for trading .....	80,774	46,182	54,675
	Financial liabilities designated at fair value through profit or loss	6,993	2,222	2,338
	Financial liabilities at amortised cost.....	509,185	543,713	589,210
	Hedging Derivatives.....	2,680	2,880	2,347
	Fair value changes of the hedged items in portfolio hedges of interest rate risk.....	-	(7)	-
	Provisions .....	6,772	7,477	9,071
	Tax liabilities	3,276	3,298	4,668
	Other liabilities .....	4,301	4,550	4,979
	Liabilities included in disposal groups classified for sale .....	-	17,197	-
	<b>Total liabilities</b> .....	<b>623,814</b>	<b>636,736</b>	<b>676,428</b>
	<b>Total Equity</b>	<b>52,874</b>	<b>53,323</b>	<b>55,428</b>

Element	Title	
	<b>Total Equity and Total Liabilities</b>	<u>676,689</u> <u>690,059</u> <u>731,856</u>
<b>B.8</b>	Key pro forma financial information	Not Applicable – the most recent financial information is the audited financial information as of 31st December, 2018.
<b>B.9</b>	Profit forecast or estimate	Not Applicable – No profit forecasts or estimates have been made in the Prospectus.
<b>B.10</b>	Audit report qualifications	Not Applicable – No qualifications are contained in any audit report included in the Prospectus.
<b>B.11</b>	Working capital	The Bank’s working capital is sufficient for its present requirements.
<b>B.17</b>	Credit ratings	<p>The Preferred Securities have been rated Ba2 by Moody’s Investors Services España, S.A. (<b>Moody’s</b>) and BB by Fitch Ratings España, S.A.U. (<b>Fitch</b>). The Bank has been rated A3 by Moody’s, A- by S&amp;P Global Ratings Europe Limited (S&amp;P) and A- by Fitch. Each of Moody’s, S&amp;P and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).</p> <p>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>

### Section C – Securities

Element	Title	
<b>C.1</b>	Description of Preferred Securities/ISIN	<p>The Preferred Securities are €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference (the <b>Liquidation Preference</b>) each.</p> <p>International Securities Identification Number (<b>ISIN</b>): ES0813211010</p> <p>Common Code: 196968750</p>
<b>C.2</b>	Currency	The currency of the Preferred Securities is Euro (€).
<b>C.3</b>	Number of shares	The Bank’s share capital stands at THREE BILLION, TWO HUNDRED AND SIXTY SEVEN MILLION, TWO HUNDRED AND SIXTY FOUR THOUSAND, FOUR HUNDRED AND TWENTY FOUR EURO, TWENTY CENTS (€3,267,264,424.20), represented by SIX BILLION, SIX HUNDRED AND SIXTY SEVEN MILLION, EIGHT HUNDRED AND EIGHTY SIX THOUSAND, FIVE HUNDRED AND EIGHTY (6,667,886,580) shares, each with a nominal value of FORTY NINE EURO CENTS (€0.49), all of the same class and series, fully subscribed and paid up.
<b>C.4 and C.8</b>	Rights attached to the Preferred Securities,	<b>Status</b>

Element	Title	
	including ranking and limitations on those rights	<p>The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in the case of insolvency (<i>concurso de acreedores</i>) of the Bank, in accordance with Article 92.2° of the Law 22/2003 of 9th July, on Insolvency (<i>Ley Concursal</i>), as amended, replaced or supplemented from time to time (the <b>Insolvency Law</b>) and Additional Provision 14.3 of Law 11/2015 but only to the extent permitted by the Insolvency Law or any other applicable laws relating to or affecting the enforcement of creditors' rights in Spain and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), for so long as the Preferred Securities constitute an Additional Tier 1 Instrument of the Bank, rank with respect to claims for any Liquidation Preference of Preferred Securities:</p> <ul style="list-style-type: none"> <li>(i) junior to (A) any unsubordinated obligations of the Bank (including where those obligations subsequently become subordinated pursuant to Article 92.1° of the Insolvency Law) and (B) any claim for principal in respect of any other contractually subordinated obligations of the Bank, present and future, not constituting Additional Tier 1 Capital of the Bank for the purposes of Section 3.(a) of Additional Provision 14 of Law 11/2015 (other than, to the extent permitted by law, any Parity Securities, whether so ranking by law or their terms);</li> <li>(ii) <i>pari passu</i> with each other and with all other claims in respect of any liquidation preference or otherwise for principal in respect of contractually subordinated obligations of the Bank under any outstanding Additional Tier 1 Instruments, present and future (and, to the extent permitted by law, <i>pari passu</i> with any other Parity Securities, whether so ranking by law or their terms); and</li> <li>(iii) senior to the common shares or any other subordinated obligations of the Bank which by law rank junior to the Preferred Securities (including, to the extent permitted by law, any contractually subordinated obligations of the Bank expressed by their terms to rank junior to the Preferred Securities).</li> </ul> <p>For these purposes:</p> <p><b>Additional Tier 1 Capital</b> means Additional Tier 1 capital (<i>capital de nivel 1 adicional</i>) as provided under applicable banking regulations;</p> <p><b>Additional Tier 1 Instrument</b> means any contractually subordinated obligation of the Bank constituting an Additional Tier 1 instrument (<i>instrumento de capital de nivel 1 adicional</i>) in accordance with applicable banking regulations; and</p> <p><b>Parity Securities</b> means any instrument issued or guaranteed by the Bank (including the guarantee thereof), which instrument or</p>

Element	Title	
		<p>guarantee, respectively, ranks <i>pari passu</i> with the Preferred Securities upon the insolvency of the Bank.</p> <p><b><i>Taxation</i></b></p> <p>All payments in respect of the Preferred Securities will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain in respect of payments of distributions (but not any Liquidation Preference or other amount), the Bank shall, save in certain limited circumstances, (to the extent such payment can be made out of distributable items on the same basis as for payment of any distribution in accordance with the Conditions) pay such additional amounts as would have been received in respect of such distribution had no such withholding or deduction been required.</p> <p><b><i>Negative pledge</i></b></p> <p>The Preferred Securities do not have the benefit of a negative pledge.</p> <p><b><i>Events of default</i></b></p> <p>The terms of the Preferred Securities do not provide for any events of default</p> <p><b><i>Substitution and Variation</i></b></p> <p>Without any requirement for any further consent or approval of the holders if a Capital Event or a Tax Event, as applicable, occurs and is continuing, the Bank may substitute or modify the terms of all (but not some only) of the Preferred Securities provided that any variation in the terms of the Preferred Securities resulting from such substitution or modification is not materially prejudicial to the interests of the holders, so that the Preferred Securities are substituted for, or the terms and conditions of the Preferred Securities are varied to become again or remain, Qualifying Preferred Securities, subject to the prior consent of the Regulator if required pursuant to applicable banking regulations.</p> <p>For these purposes, <b>Qualifying Preferred Securities</b> means, at any time, any securities or other instruments issued directly or indirectly by the Bank that:</p> <ul style="list-style-type: none"> <li>(a) contain terms which comply with the then current requirements to be included in, or count towards, the Group's and the Bank's Tier 1 capital;</li> <li>(b) have at least the same ranking as is applicable to the Preferred Securities on the Closing Date;</li> </ul>

Element	Title	
		<p>(c) have the same denomination and aggregate outstanding Liquidation Preference, the same terms for the determination of any applicable distributions, the same redemption rights as the Preferred Securities, the same dates for payment of distributions as the Preferred Securities immediately prior to any substitution or variation;</p> <p>(d) preserve any existing rights under the Preferred Securities to any accrued distributions which have not been paid; and</p> <p>(e) are listed or admitted to trading on any stock exchange as selected by the Bank, if the Preferred Securities were listed or admitted to trading on a stock exchange immediately prior to the relevant substitution or variation.</p> <p><b>Meetings</b></p> <p>The terms of the Preferred Securities contain provisions for calling meetings of holders of such Preferred Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.</p> <p><b>Governing law</b></p> <p>Common laws of the Kingdom of Spain (<i>Derecho común español</i>).</p>
C.5	Restrictions on transferability	Not Applicable – There are no restrictions on the free transferability of the Preferred Securities.
C.6 and C.21	Listing and admission to trading	Application has been made by the Bank (or on its behalf) for the Preferred Securities to be admitted to listing and trading on Spanish AIAF Fixed Income Securities Market ( <i>AIAF Mercado de Renta Fija</i> ).
C.7	Dividend policy	<p>As announced in 2013, the Bank’s shareholder remuneration policy establishes the distribution of an annual pay-out of between 35 per cent. and 40 per cent. of the profits obtained in each financial year, subject to the Bank’s results, market conditions, regulatory environment and any dividend recommendations that may be adopted.</p> <p>In accordance with the relevant event published on February 2017, after the last “Dividendo Opción” implemented by the Bank, the subsequent shareholders’ remunerations that could be approved would be fully in cash.</p> <p>This fully in cash shareholders’ remuneration policy would be composed, for each financial year, of an interim distribution on account of the dividend of such financial year (which is expected to be paid in October) and a final dividend (which would be paid once</p>

Element	Title	
		the financial year has ended and the profit allocation has been approved, which is expected for April), subject to the applicable authorisations by the competent governing bodies.
C.9	Interest/Redemption	<p><b>Distributions</b></p> <p>Distributions will accrue (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.00 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of 6.039 per cent. per annum and the 5-year mid-swap rate for such Reset Period, converted to a quarterly rate in accordance with market convention. Subject to the terms of the Preferred Securities, such distributions will be payable quarterly in arrear on each Distribution Payment Date.</p> <p>The Bank may elect, in its sole and absolute discretion, to cancel the payment of any distribution in whole or in part at any time and for any (or no) reason.</p> <p>Payments of distributions in any financial year of the Bank shall be made only out of distributable items of the Bank.</p> <p>To the extent that (i) the Bank has insufficient distributable items to make distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of distributable items of the Bank in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the distributable items of the Bank, and/or (ii) the Regulator requires the Bank to cancel the relevant distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant distribution on the Preferred Securities.</p> <p>No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to applicable banking regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group).</p> <p>For these purposes:</p> <p><b>Closing Date</b> means 29th March 2019;</p> <p><b>Distribution Payment Date</b> means each of 29th June, 29th September, 29th December and 29th March in each year;</p> <p><b>First Reset Date</b> means 29th March, 2024;</p>



Element	Title	
		<p><b>Maximum Distributable Amount</b> means, at any time, any maximum distributable amount required to be calculated at such time in accordance with (a) Article 48 of Law 10/2014 and any provision developing Article 48 of Law 10/2014, and any other provision of Spanish law transposing or implementing Article 141 of the CRD IV Directive and/or (b) applicable banking regulations;</p> <p><b>Reset Date</b> means the First Reset Date and every fifth anniversary thereof; and</p> <p><b>Reset Period</b> means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date.</p> <p><b><i>Liquidation Distribution</i></b></p> <p>In the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into common shares) will confer an entitlement to receive out of the assets of the Bank available for distribution to holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of common shares or any other instrument of the Bank ranking junior to the Preferred Securities.</p> <p>If, before such liquidation or winding-up of the Bank, a Conversion Event occurs but the relevant conversion of the Preferred Securities into common shares is still to take place at such time, the above entitlement conferred by the Preferred Securities will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up or otherwise in accordance with applicable law at such time.</p> <p>For these purposes,</p> <p><b>Conversion Event</b> means a Trigger Event or a Capital Reduction, as the case may be; and</p> <p><b>Liquidation Distribution</b> means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to any limitations on payment, an amount equal to accrued and unpaid distributions for the then current distribution period to (but excluding) the date of payment of the Liquidation Distribution.</p> <p><b><i>Conversion</i></b></p> <p><u>Trigger Event Conversion</u></p> <p>If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:</p>

Element	Title	
		<p>(a) notify the Regulator and holders (together, a <b>Trigger Event Notice</b>);</p> <p>(b) not make any further distribution on the Preferred Securities, including any accrued and unpaid distributions, which shall be cancelled by the Bank; and</p> <p>(c) irrevocably and mandatorily (and without any requirement for the consent or approval of holders) convert all the Preferred Securities into common shares (a <b>Trigger Conversion</b>).</p> <p>For these purposes, “Trigger Event” means if, at any time, the CET1 ratio of the Bank or the Group is less than 5.125 per cent. as determined by the Bank</p> <p><u>Capital Reduction Conversion</u></p> <p>If a Capital Reduction occurs at any time on or after the Closing Date, then the Bank will:</p> <p>(a) notify the Regulator and holders (together, a <b>Capital Reduction Notice</b>); and</p> <p>(b) subject as provided below, irrevocably and mandatorily (and without any requirement for the consent or approval of holders) convert all the Preferred Securities into common shares (a <b>Capital Reduction Conversion</b>) and pay to the holders, as applicable, where not cancelled, or otherwise subject to any limitations on payment, an amount equal to accrued and unpaid distributions for the then current distribution period to (but excluding) the Conversion Settlement Date.</p> <p>Notwithstanding the foregoing, if the Bank gives a Capital Reduction Notice, each holder will have the right to elect that its Preferred Securities shall not be converted, in which case the Preferred Securities of such holder shall remain outstanding.</p> <p>For these purposes:</p> <p><b>Capital Reduction</b> means the adoption, in accordance with Article 418.3 of the Spanish Corporations Law, by a general shareholders’ meeting of the Bank of a resolution of capital reduction by reimbursement of cash contributions (<i>restitución de aportaciones</i>) to shareholders by way of a reduction in the nominal value of the shares of such shareholders in the capital of the Bank; and</p> <p><b>Conversion Settlement Date</b> means the date on which the relevant common shares are to be delivered on conversion.</p> <p><b>Redemption</b></p>

Element	Title	
		<p>The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions:</p> <p>(a) all, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, at any time on or after the First Reset Date, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other applicable banking regulations in force at such time; and</p> <p>(b) if, on or after the Closing Date, there is a Capital Event or a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, at any time, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other applicable banking regulations in force at the relevant time.</p> <p>For these purposes:</p> <p><b>Capital Event</b> means a change (or any pending change which the Regulator considers sufficiently certain) in Spanish law or applicable banking regulations that results (or would result) in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 capital;</p> <p><b>Redemption Price</b> means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in the terms, an amount equal to accrued and unpaid distributions for the then current distribution period to (but excluding) the date fixed for redemption of the Preferred Securities;</p> <p><b>Regulator</b> means the European Central Bank, Banco de España or the Relevant Spanish Resolution Authority, as applicable, or such other or successor authority having primary bank supervisory authority with respect to prudential matters or the exercise of resolution powers in relation to the Bank and/or the Group; and</p> <p><b>Relevant Spanish Resolution Authority</b> means the Fund for Orderly Bank Restructuring (Fondo de Reestructuración Ordenada Bancaria), the Single Resolution Mechanism, the Bank of Spain, the Spanish Securities Market Commission or any other entity with the authority to exercise any of the resolution tools and powers contained in Law 11/2015 from time to time; and</p> <p><b>Tax Event</b> means that as a result of any change in, or amendment to, the laws or regulations applicable in Spain or any change in the application or binding official interpretation or administration of any such laws or regulations, which change or amendment, or change in the application or binding official interpretation or administration, becomes effective on or after the Closing Date (a)</p>

Element	Title	
		<p>the Bank would not be entitled to claim a deduction in computing its taxation liabilities in Spain in respect of any distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts pursuant to the terms of the Preferred Securities, or (c) the applicable tax treatment of the Preferred Securities would be materially affected;</p> <p><b><i>Representative of holders</i></b></p> <p>Not Applicable – No representative of the holders has been appointed by the Bank.</p>
C.22	Underlying share	<p>Common shares of the Bank of €0.49 of face value, with the same voting and dividend rights than the common shares currently issued, freely transferable and listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges.</p>

### Section D – Risks

Element	Title	
D.1	Key risks regarding the issuer	<p>In purchasing the Preferred Securities, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Preferred Securities including that the Bank may elect, in its sole and absolute discretion, to cancel the payment of any distribution in whole or in part at any time and for any (or no) reason. There is a wide range of factors which individually or together could result in the Bank becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Bank's control. The Bank has identified a number of factors which could materially adversely affect its business and ability to make payments due. These factors include:</p> <p><u>Legal, Regulatory and Compliance Risks</u></p> <ul style="list-style-type: none"> <li>• <i>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</i></li> <li>• <i>Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations</i></li> <li>• <i>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</i></li> </ul>

Element	Title	
		<ul style="list-style-type: none"> <li>• <i>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</i></li> <li>• <i>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</i></li> <li>• <i>The Group's anti-money laundering and anti-terrorism programmes may be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing</i></li> <li>• <i>The Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes</i></li> <li>• <i>Local regulation may have a material effect on the Bank's business, financial condition, results of operations and cash flows</i></li> </ul> <p><u>Macroeconomic Risks</u></p> <ul style="list-style-type: none"> <li>• <i>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</i></li> <li>• <i>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</i></li> <li>• <i>The Group may be adversely affected by political events in Catalonia</i></li> <li>• <i>Any decline in the Kingdom of Spain's sovereign credit ratings could adversely affect the Group's business, financial condition and results of operations</i></li> <li>• <i>The Group may be materially adversely affected by developments in the emerging markets where it operates</i></li> <li>• <i>The Bank may be adversely affected by the United Kingdom's planned exit from the European Union</i></li> <li>• <i>The Group's business could be adversely affected by global political developments, particularly with regard to U.S. policies that affect Mexico</i></li> <li>• <i>The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by asset impairment</i></li> <li>• <i>Exposure to the real estate market makes the Group vulnerable to developments in this market</i></li> </ul>

Element	Title	
		<p data-bbox="660 219 1015 248"><u>Liquidity and Financial Risks</u></p> <ul data-bbox="660 286 1474 1377" style="list-style-type: none"> <li data-bbox="660 286 1474 421">• <i>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</i></li> <li data-bbox="660 459 1474 593">• <i>Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for the Group to fund its business on favourable terms, cause the Group to take other actions or even lead to the exercise of any Spanish Bail-in Power</i></li> <li data-bbox="660 631 1474 728">• <i>Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities</i></li> <li data-bbox="660 766 1474 900">• <i>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</i></li> <li data-bbox="660 938 1474 1003">• <i>The Group's business is particularly vulnerable to volatility in interest rates</i></li> <li data-bbox="660 1041 1474 1176">• <i>The Bank and certain of its subsidiaries are dependent on their credit ratings and any reduction of their credit ratings could materially and adversely affect the Group's business, financial condition and results of operations</i></li> <li data-bbox="660 1214 1474 1279">• <i>Highly-indebted households and corporations could endanger the Group's asset quality and future revenues</i></li> <li data-bbox="660 1317 1474 1377">• <i>The Group depends in part upon dividends and other funds from subsidiaries</i></li> </ul> <p data-bbox="660 1415 999 1444"><u>Business and Industry Risks</u></p> <ul data-bbox="660 1482 1474 2020" style="list-style-type: none"> <li data-bbox="660 1482 1474 1512">• <i>The Group faces increasing competition in its business lines</i></li> <li data-bbox="660 1550 1474 1579">• <i>The Group faces risks related to its acquisitions and divestitures</i></li> <li data-bbox="660 1617 1474 1682">• <i>The Group is party to a number of legal and regulatory actions and proceedings</i></li> <li data-bbox="660 1720 1474 1816">• <i>The Bank may be affected by actions that are incompatible with its ethics and compliance standards, and by the Bank's failure to timely detect or remedy any such actions</i></li> <li data-bbox="660 1854 1474 2020">• <i>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</i></li> </ul>

Element	Title	
		<p><u>Financial, Reporting and other Operational Risks</u></p> <ul style="list-style-type: none"> <li>• <i>The Group's financial results, regulatory capital and ratios may be negatively affected by changes to accounting standards</i></li> <li>• <i>Weaknesses or failures in the Group's internal or outsourced processes, systems and security could materially adversely affect its business, financial condition and results of operations and could result in reputational damage</i></li> <li>• <i>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</i></li> <li>• <i>The Group faces security risks, including denial of service attacks, hacking, social engineering attacks targeting its partners and customers, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect its business or reputation, and create significant legal and financial exposure</i></li> <li>• <i>The Group could be the subject of misinformation</i></li> <li>• <i>The Bank's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position</i></li> </ul>
D.3	Key risks regarding the Preferred Securities	<p>There are also risks associated with the Preferred Securities, including a range of market risks, as follows:</p> <ul style="list-style-type: none"> <li>• <i>The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change and have a material adverse effect on the terms and market value of the Preferred Securities</i></li> <li>• <i>The Preferred Securities may be subject to the exercise of the Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the holders of the Preferred Securities under, and the value of, any Preferred Securities</i></li> <li>• <i>Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of distributions on the Preferred Securities and could have a material adverse effect on the Bank's business, financial condition and results of operations</i></li> <li>• <i>The Preferred Securities are irrevocably and mandatorily convertible into newly issued common shares in certain prescribed circumstances</i></li> </ul>

Element	Title	
		<ul style="list-style-type: none"> <li>• <i>The circumstances that may give rise to the Trigger Event are unpredictable</i></li> <li>• <i>Holder s will bear the risk of fluctuations in the price of the common shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event</i></li> <li>• <i>The Preferred Securities are perpetual</i></li> <li>• <i>The Preferred Securities may be redeemed at the option of the Bank</i></li> <li>• <i>Payments of distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions</i></li> <li>• <i>Payments of distributions on the Preferred Securities may be restricted as a result of a failure of the Bank to comply with its capital requirements. However, many aspects of the manner in which such restrictions will be implemented remain uncertain.</i></li> <li>• <i>There are no events of default</i></li> <li>• <i>Holder s of the Preferred Securities only have a limited ability to cash in their investment in the Preferred Securities</i></li> <li>• <i>Holder s have limited anti-dilution protection</i></li> <li>• <i>The obligations of the Bank under the Preferred Securities are subordinated and will be further subordinated upon conversion into common shares</i></li> <li>• <i>If a Delivery Notice is not duly delivered by a holder, any common shares underlying the relevant Preferred Securities will be sold and that holder will bear the risk of fluctuations in the price of the common shares</i></li> <li>• <i>There are limited remedies available under the Preferred Securities</i></li> <li>• <i>Holder s may be obliged to make a takeover bid in case of a Conversion Event if they take delivery of common shares</i></li> <li>• <i>Holder s may be subject to disclosure obligations and/or may need approval by the Bank's Regulator</i></li> <li>• <i>There is no restriction on the amount or type of further securities or indebtedness which the Bank may incur</i></li> <li>• <i>Prior to the issue and registration of the common shares to be delivered following the occurrence of a Conversion Event, holders will not be entitled to any rights with respect to such common shares, but will be subject to all changes made with respect to the common shares</i></li> </ul>



Element	Title	
		<ul style="list-style-type: none"> <li>• <i>The terms of the Preferred Securities contain a waiver of set-off rights</i></li> </ul> <p><u>Risks Related to the Preferred Securities Generally</u></p> <ul style="list-style-type: none"> <li>• <i>The Preferred Securities may not be a suitable investment for all investors</i></li> <li>• <i>Spanish tax rules</i></li> <li>• <i>In certain circumstances holders may be bound by modifications to the Preferred Securities to which they did not consent</i></li> </ul> <p><u>Risks Related to the Market Generally</u></p> <ul style="list-style-type: none"> <li>• <i>The secondary market generally</i></li> <li>• <i>As the Preferred Securities are registered with Iberclear investors will have to rely on their procedures for transfer, payment and communication with the Bank</i></li> <li>• <i>An investor holding Preferred Securities which are not denominated in the investor's home currency will be exposed to movements in exchange rates adversely affecting the value of its investment. In addition, investors may not receive payments due on the Preferred Securities as a result of the imposition of exchange controls in relation to the Preferred Securities</i></li> <li>• <i>Interest rate risk</i></li> <li>• <i>Any regulation and reform of the 5-year Mid-Swap Rate may adversely affect the value of the Preferred Securities</i></li> <li>• <i>Credit ratings may not reflect all risks associated with an investment in the Preferred Securities</i></li> <li>• <i>Legal investment considerations may restrict certain investments</i></li> </ul>

### Section E – Offer

Element	Title	
E.1	Net proceeds and an estimate of the total expenses	<p>Net proceeds: €992,000,000</p> <p>The expenses related to the admission of the Preferred Securities are estimated to be the following: (i) €60,500 with respect to charges and fees of AIAF and Iberclear; and (ii) €71,407 with respect to fees of CNMV.</p>
E.2a	Use of proceeds	<p>The net proceeds from the issue of Preferred Securities will be used for the Group's general corporate purposes, which include making a profit.</p>

Element	Title	
E.3	Terms and conditions of the offer	<p>Not Applicable – the Preferred Securities are being offered in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus.</p> <p>The issue price of the Preferred Securities is 100 per cent. of their nominal amount.</p>
E.4	Interest of natural and legal persons involved in the issue/offer	<p>The Managers will be paid the agreed commissions in relation to the issue of the Preferred Securities. The Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its respective affiliates in the ordinary course of business.</p>
E.5	Name of the entity offering to sell the security / Lock-up agreements	<p>Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner, the <b>Joint Lead Manager</b>), BNP Paribas, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch and HSBC Bank plc (the <b>Joint Bookrunners</b>) and Bankinter, S.A. (the <b>Co-Manager</b> and together with the Joint Lead Manager and the Joint Bookrunners, the <b>Managers</b>).</p> <p>No lock-up agreement applicable.</p>
E.6	Dilution	<p>As the Preferred Securities are only convertible upon a Trigger Event or a Capital Reduction, there is no immediate dilution resulting from the offering.</p>
E.7	Expenses charged to the investor by the issuer	<p>Not Applicable – No expenses will be charged to investors by the Bank.</p>

## OVERVIEW OF THE OFFERING

*The following is an overview (the Overview) of certain information relating to the offering of the Preferred Securities, including the principal provisions of the terms and conditions thereof. This Overview must be read as an introduction to this Prospectus and any decision to invest in the Preferred Securities should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. This Overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. See, in particular, "Conditions of the Preferred Securities".*

Words and expressions defined in "Conditions of the Preferred Securities" shall have the same meanings in this Overview.

<b>Bank:</b>	Banco Bilbao Vizcaya Argentaria, S.A.
<b>Legal Entity Identifier:</b>	K8MS7FD7N5Z2WQ51AZ71
<b>Risk Factors:</b>	<p>There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under "<i>Risk Factors</i>" and include the Bank's exposure to adverse changes in economic conditions in the countries where the Group operates, the Spanish economy and the real estate market and risks relating to increasingly onerous capital requirements, the possible application of any Spanish Bail-in Power to the Bank, the lack of availability of funding, volatility in interest rates, increased competition and risks relating to cyber security. There are also risks faced by the Bank in its Southern and North American and Eurasian businesses. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under "<i>Risk Factors</i>".</p>
<b>Issue size:</b>	€1,000,000,000
<b>Issue date:</b>	29th March, 2019
<b>Issue details:</b>	<p>Series 8 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 Liquidation Preference each.</p> <p>The Bank will request that the Preferred Securities qualify as Tier 1 Capital of the Bank and the Group pursuant to CRD IV and Applicable Banking Regulations.</p>
<b>Liquidation Preference:</b>	€200,000 per Preferred Security.
<b>Use of Proceeds:</b>	The net proceeds from the issue of the Preferred Securities will be used for the Group's general corporate purposes, which include making a profit.
<b>Distributions:</b>	Distributions will accrue (i) in respect of the period

from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.00 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum equal to the aggregate of 6.039 per cent. per annum and the 5-year Mid-Swap Rate for such Reset Period, converted to a quarterly rate in accordance with market convention. Subject as provided in the Conditions (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 4.

**Limitations on Distributions:**

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and for any (or no) reason. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank.

To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items of the Bank in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, and/or (ii) the Regulator, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or Applicable Banking Regulations then in force, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group).

Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made on the relevant Distribution Payment Date in respect of the Preferred Securities then the right of the Holders to receive the relevant

Distribution (or part thereof) will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof), whether or not any future Distributions on the Preferred Securities are paid.

**Status of the Preferred Securities:**

The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in the case of insolvency (*concurso de acreedores*) of the Bank, rank as set out in Condition 3 in accordance with Article 92.2° of the Insolvency Law and Additional Provision 14.3 of Law 11/2015 but only to the extent permitted by the Insolvency Law or any other applicable laws relating to or affecting the enforcement of creditors' rights in Spain and subject to any other ranking that may apply as a result of any mandatory provision of law.

For further information, see Condition 3.

**Optional Redemption:**

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator (if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time on or after the First Reset Date at the Redemption Price.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time if there is a Capital Event or a Tax Event.

For further information, see Condition 7.

**Substitution and Variation:**

If a Capital Event or a Tax Event, as applicable, occurs and is continuing, the Bank may substitute or modify the terms of the Preferred Securities so that the Preferred Securities once again become or remain Qualifying Preferred Securities. See Condition 11.2.

**Conversion:**

In the event of the occurrence of the Trigger Event, the Preferred Securities are mandatorily and irrevocably convertible into newly issued Common Shares at the Conversion Price.

In addition and subject as provided in Condition 7.6, in the event of a Capital Reduction, the Preferred Securities are mandatorily and irrevocably convertible into Common Shares unless a Holder elects that the Preferred Securities held by it shall not be so converted by delivery to the Bank of a duly completed Election Notice through the relevant Iberclear Member and in accordance with the Iberclear procedures applicable

from time to time on or before the 10th Business Day immediately following the Capital Reduction Notice Date, which Election Notice shall be irrevocable.

For further information, see Condition 6.

**Conversion Price:**

If the Common Shares are (a) then admitted to trading on a Relevant Stock Exchange, the Conversion Price will be the higher of: (i) the Reference Market Price of a Common Share, (ii) the Floor Price and (iii) the nominal value of a Common Share (being €0.49 on the Closing Date) or (b) not then admitted to trading on a Relevant Stock Exchange, the higher of (ii) and (iii) above.

The Floor Price is subject to adjustment in accordance with Condition 6.4.

**Liquidation Distribution:**

Subject as provided below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 6) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution.

If, before such liquidation or winding-up of the Bank described above, a Conversion Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place at such time, the entitlement conferred by the Preferred Securities for the above purposes will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which Holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up or otherwise in accordance with applicable law at such time.

**Purchases:**

The Bank or any member of the Group may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise, subject to the prior consent of the Regulator, if required, and in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time.

**Pre-emptive rights:**

The Preferred Securities do not grant Holders preferential subscription rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.

**Voting Rights:**

The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the

above, the Conditions of the Preferred Securities contain provisions for convening meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

For further information, see Condition 10.

**Withholding Tax and Additional Amounts:**

Subject as provided in Condition 12.2, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made out of Distributable Items on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as would have been received in respect of such Distribution had no such withholding or deduction been required.

For further information, see Condition 12 and "*Taxation – Preferred Securities – Tax Reporting Obligations of the Bank*" below.

**Form:**

The Preferred Securities have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate Liquidation Preference of €1,000,000,000 and a Liquidation Preference of €200,000 each.

**Registration, clearing and settlement:**

The Preferred Securities have been registered with Iberclear as managing settlement entity of the Spanish Central Registry.

Holders of a beneficial interest in the Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear Bank SA/NV and Clearstream Banking, S.A. with Iberclear.

**Title and transfer:**

Title to the Preferred Securities is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the

holder of the relevant Preferred Securities recorded therein. For these purposes, the “Holder” means the person in whose name such Preferred Securities are for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book (or, in the case of a joint holding, the first such named holder).

The Preferred Securities are issued without any restrictions on their transferability. Consequently, the Preferred Securities may be transferred and title to the Preferred Securities may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable. Each Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant Preferred Securities for all purposes (regardless of any notice of ownership, trust or any interest, or any writing on, or the theft or loss of, the Certificate issued in respect of it), and no person will be liable for so treating the Holder.

**Ratings:**

The Preferred Securities have been assigned a rating of Ba2 by Moody’s and BB by Fitch.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Listing:**

Application has been made for the Preferred Securities to be admitted to listing and trading on AIAF.

**Governing Law:**

The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, the common laws of the Kingdom of Spain (*Derecho común español*).

**Selling Restrictions:**

In addition to the “prohibition of sales to EEA Retail Investors”, there are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom, Spain, Singapore, Hong Kong, Switzerland, Canada, Italy and Belgium. Regulation S, category 2 restrictions under the Securities Act apply. The Preferred Securities are not and will not be eligible for sale in the United States under Rule 144A of the Securities Act.



## RISK FACTORS

*The Bank believes that the following factors may affect its ability to fulfil its obligations under the Preferred Securities. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Preferred Securities are also described below.*

*In purchasing the Preferred Securities, investors assume the risk that the Bank may become insolvent, subject to resolution or otherwise be unable to make all payments in respect of the Preferred Securities, including that the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and for any (or no) reason. If at any time, a Trigger Event occurs, the Preferred Securities will further be mandatorily and irrevocably convertible into Common Shares.*

*The Bank believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the non-payment by the Bank of any distributions, liquidation preferences or other amounts on or in connection with the Preferred Securities may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Preferred Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Prospectus and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE PREFERRED SECURITIES**

#### **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 as a consequence of some of these proposals. The regulatory framework for financial institutions is likely to undergo further significant change. This creates significant uncertainty for the Group and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including “bail-in” of creditors, separation of certain businesses from deposit taking, stress testing and capital planning regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

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

financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Group's business, financial condition, results of operations and cash flows. In addition, regulatory scrutiny under the existing laws and regulations has become more intense.

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

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

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

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

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

As a Spanish credit institution, the Bank is subject to Directive 2013/36/EU of the European Parliament and of the Council of 26th June, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (as amended, replaced or supplemented from time to time, the **CRD IV Directive**) through which the EU began implementing the Basel III capital reforms, with effect from 1st January, 2014, with certain requirements being phased in until 1st January, 2019. The core regulation regarding the solvency of credit institutions is Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26th June, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (as amended, replaced or supplemented from time to time, the **CRR** and, together with the CRD IV Directive and any measures implementing the CRD IV Directive or the CRR which may

from time to time be applicable in Spain, **CRD IV**), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU Member States, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law took place through Royal Decree-Law 14/2013, of 29th November, Law 10/2014, of 26th June, on the organization, supervision and solvency of credit institutions (**Law 10/2014**), Royal Decree 84/2015, of 13th February (**RD 84/2015**), Bank of Spain Circular 2/2014, of 31st January and Bank of Spain Circular 2/2016, of 2nd February (the **Bank of Spain Circular 2/2016**).

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

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

The G-SIB buffer applies to those institutions included on the list of G-SIBs, which is updated annually by the Financial Stability Board (the **FSB**). The Bank was excluded from this list with effect from 1st January, 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 21st November, 2018 that the Bank continues to be considered a D-SIB and is required to maintain a fully-loaded D-SIB buffer of a CET1 capital ratio of 0.75 per cent. on a consolidated basis.

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

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

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

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

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

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

As a result of the most recent SREP carried out by the ECB, the Bank received a communication from the ECB pursuant to which BBVA is required to maintain, as from 1st March, 2019, on a consolidated basis, a CET1 capital ratio of 9.26 per cent. (8.53 per cent. on an individual basis) and a total capital ratio of 12.76 per cent (12.03 per cent. on an individual basis).

This total capital ratio requirement on a consolidated basis includes (i) the minimum CET1 capital requirement under “Pillar 1” (4.5 per cent.); (ii) the Additional Tier 1 capital requirement under “Pillar 1” (1.5 per cent.); (iii) the Tier 2 capital requirement under “Pillar 1” (2 per cent.); (iv) the CET1 capital requirement under “Pillar 2” (1.5 per cent.), which remains unchanged since the prior SREP; (v) the capital conservation buffer (2.5 per cent. of CET1); (vi) the Other Systemic Important Institution Buffer (0.75 per cent. of CET1); and (vii) the countercyclical capital buffer (0.01 per cent. of CET1).

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

Additionally, on 1st February, 2019, the Bank announced its new CET1 fully-loaded capital target, consisting of a CET1 ratio within the range of between 11.5 per cent. and 12 per cent. on a consolidated basis and which the Bank expects to achieve by 2019 year-end. The targets expressed as part of the Bank's strategy are targets only and no assurance can be given that the Bank will achieve this target or that this target would not be changed in the future. Any failure by the Bank to maintain a consolidated CET1 capital ratio in line with its CET1 fully-loaded capital target could adversely affect the market price or value or trading behavior of any securities issued by the Bank (and, in particular, any of its capital instruments such as the Preferred Securities) and ultimately the imposition of further "Pillar 2" guidance or requirements.

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

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

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

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

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

Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014, aimed at strengthening own funds

or limiting or prohibiting the distribution of dividends, respectively, will also result in a requirement to determine the MDA and restrict discretionary payments to such MDA. Pursuant to the EU Banking Reforms, the calculation of the MDA and the consequences thereof, as well as the restrictions specified in the paragraph above while such calculation is pending, could also be triggered by a breach of MREL (as defined below) (see “—*Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities and could have a material adverse effect on the Bank’s business, financial condition and results of operations*” below) or a breach of the minimum leverage ratio requirement.

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

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

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

Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result, among other things, in the imposition of further “Pillar 2” requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of 18th June 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 6th November by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996 of 20th December on credit entities’ deposit guarantee fund is amended (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión, y por el que se modifica el Real Decreto 2606/1996, de 20 de diciembre, sobre fondos de garantía de depósitos de entidades de crédito*) (as amended, replaced or supplemented from time to

time, **RD 1012/2015**), has implemented the BRRD into Spanish law. See “—*The Preferred Securities may be subject to the exercise of the Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities*”.

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

At its meeting of 12th January, 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 1st January, 2015. As of the date of this Prospectus, there is no applicable regulation in Spain which establishes a specific leverage ratio requirement for credit institutions. However, the EU Banking Reforms propose a binding leverage ratio requirement of 3 per cent. of Tier 1 capital that is added to an institution’s own funds requirements and that an institution must meet in addition to its risk based requirements. In particular, any breach of this leverage ratio could also result in a requirement to determine the MDA and restrict discretionary payments to such MDA, as well as trigger the restrictions referred to above while such calculation is pending.

The table below sets out the reconciliation of the Group’s accounting assets to its leverage ratio exposure as of 31st December, 2018:

	<i>Phased-In</i>	<i>Fully Loaded</i>
	<i>(in millions of euros except percentages)</i>	
a) Total assets	676,689	676,689
b) Adjustments for accounting consolidated companies, but outside the regulatory consolidation perimeter	-19,326	-19,326
c) Adjustments for derivative instruments	-7,410	-7,410
d) Adjustments of securities financing transactions	2,949	2,949
e) Adjustments for off-balance sheet assets <sup>(1)</sup>	61,516	61,409
f) (Adjustments for intragroup exposures excluded from the leverage ratio exposure measured in accordance with article 429(7) of the CRR)	0	0
g) Other adjustments	-9,012	-10,080
<b>Total leverage ratio exposures</b>	<b>705,406</b>	<b>704,231</b>

h) Tier 1	45,945	45,044
<b>Total leverage ratio exposures</b>	705,299	704,231
<b>Leverage ratio</b>	<b>6,5</b>	<b>6,4</b>

(1) Corresponds to the exposure value of off-balance sheet assets after applying conversion factors determined in accordance with article 429(10) of the CRR.

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

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

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

There can be no assurance that the implementation of the above capital requirements will not adversely affect the Bank's ability to make "discretionary payments", including, but not limited to, the payment of Distributions on the Preferred Securities, 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.

Solvency amounts for the Group (Basel III phased-in) on a consolidated basis, in accordance with the regulations applicable on each of the dates indicated, are shown below. The capital ratios are calculated under CRD IV as from 2014, applying a phase-in amount of 100 per cent. for 2018, 80 per cent. for 2017 and 60 per cent. for 2016.



**Phased-in Capital Base**

**As at the year ended 31st December,**  
(in millions of euros except percentages)

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Common Equity Tier 1 capital (CET1)	40,313	42,341	47,370
Additional Tier 1 capital (AT1)	5,634	4,639	2,713
Tier 2 capital	8,756	8,798	8,810
Capital base	54,703	55,778	58,893
Risk-weighted assets	348,264	362,875	388,951
CET1 ratio	11.58%	11.67%	12.18%
AT1 ratio	1.62%	1.28%	0.70%
Tier 1 ratio	13.19%	12.95%	12.88%
Tier 2 ratio	2.51%	2.42%	2.27%
Total capital ratio	15.71%	15.37%	15.14%

As of 31st December, 2018, 31st December, 2017 and 31st December, 2016, the Group's fully-loaded CET1 ratio was 11.3 per cent., 11.1 per cent. and 10.9 per cent., respectively, on a consolidated basis. As of 31st December, 2018, the Group's CET1 phased-in capital ratio was 11.58 per cent. on a consolidated basis.

***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 14th February, 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 the securities issued by the Group or other issuers (including secondary market transactions) in certain circumstances.

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

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

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

Moreover, Law 18/2014, of 15th October, introduced a 0.03 per cent. tax on bank deposits in Spain. This tax is payable annually by Spanish banks. There can be no assurance that additional national or transnational bank levies or financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates.

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

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

Law 11/2015 and RD 1012/2015 require Spanish credit institutions, including the Bank, to make at least an annual ordinary contribution to the National Resolution Fund (*Fondo de Resolución Nacional*), payable on request of the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (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 per cent. of the aggregate amount of all deposits guaranteed by the Deposit Guarantee Fund (*Fondo de Garantía de Depósitos de Entidades de Crédito*) by 31st December, 2024. The contribution will be adjusted to the risk profile of each institution in accordance with the criteria set out in Council Implementing Regulation (EU) 2015/81 of 19th December, 2014 and RD 1012/2015. The FROB may, in addition, collect extraordinary contributions.

Furthermore, Law 11/2015 also provides for an additional charge (*tasa*) which shall be used to further fund the activities of the FROB, in its capacity as a resolution authority, which charge shall equal 2.5 per cent. of the above annual ordinary contribution to be made to the National Resolution Fund. Moreover, Commission Delegated Regulation (EU) 2017/2361 of 14th September, 2017 establishes the system of contributions to the administrative expenditures of the Single Resolution Board (the **SRB**), to be paid by credit institutions in the EU.

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

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

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

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

Banking union is expected to be achieved through new harmonised 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 4th November, 2014.

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that form part of the SSM. Several steps have already been taken in this regard, such as (i) the publication of the Supervisory Guidelines, (ii) the approval of the SSM Framework Regulation, (iii) the approval of Regulation (EU) 2016/445 of the ECB of 14th March, 2016 on the exercise of options and discretions available in European Union law, and (iv) a set of guidelines on the application of CRR's national options and discretions. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The SRB started operating on 1st January, 2015 and fully assumed its resolution powers on 1st January, 2016. The Single Resolution Fund has also been in place since 1st January, 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 per cent. 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 addition, on 29th January, 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 harmonisation 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 United Kingdom Financial Services (Banking Reform) Act 2013, complex securitisations 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 programmes may be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing***

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

condition and results of operations. Further, the Group engages in investigations relating to alleged or suspected violations of anti-money laundering or anti-terrorism rules and regulations from time to time and any such investigations or any related proceedings could be time-consuming and costly.

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

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 programmes, including those administered by the United Nations, the EU and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Group's business, the Group may directly or indirectly, through third parties, deal with entities the employees of which are considered government officials. In addition, economic sanctions programmes restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies, procedures, systems and other mitigating measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies 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 Group, limits being placed on the Group's activities, the Group's authorisations and licenses being revoked, damage to the Group's reputation and other consequences that could have a material adverse effect on the Group's business, results of operations and financial condition. Further, the Group engages in investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations from time to time and any such investigations could be time-consuming and 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 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, nationalisation, 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.

## Macroeconomic Risks

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

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

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

- weak economic growth or recession in the countries where it operates;
- changes in the institutional environment in the countries where it operates could evolve into sudden and intense economic downturns and/or regulatory changes;
- a global trade war triggered by increasing tariffs and non-tariff barriers between the main economic blocks. The increase in trade barriers might adversely affect global trade flows both directly and indirectly, through the increase in financial volatility and the decrease in confidence levels of businesses and households, which could trigger an intense global economic slowdown or even a recession;
- deflation, mainly in Europe, or significant inflation, such as the significant inflation recently experienced by Venezuela and Argentina and, to a lesser extent, Turkey;
- changes in foreign exchange rates resulting in changes in the reported earnings of the Group's subsidiaries, particularly in Venezuela and Argentina, together with the relevant impact on profits, assets (including risk-weighted assets) and liabilities;
- a lower interest rate environment, or even a prolonged period of negative interest rates in some areas where the Group operates, which could lead to decreased lending margins and lower returns on assets;
- a higher interest rate environment, including as a result of an increase in interest rates by the Federal Reserve or any further tightening of monetary policies, including to address potential inflationary pressures and currency devaluations in Latin America, which could endanger economic growth and make it more difficult for customers of the Group's mortgage and consumer loan products to service their debts;
- adverse developments in the real estate market, especially in Spain, Mexico, the United States and Turkey, given the Group's exposures to such markets;
- poor employment growth and structural challenges restricting employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect household income levels of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan loss provisions;
- substantially lower oil prices, which could particularly affect producing areas, such as Venezuela, Mexico, Texas or Colombia, to which the Group is materially exposed or, conversely,

substantially higher oil prices, which could have a negative impact on disposable income levels in oil consuming areas, such as Spain or Turkey, where the Group is also materially exposed;

- changes in laws, regulations and policies as a result of election processes in the different geographies in which the Group operates, which may negatively affect the Group's business or customers in those geographies and other geographies in which the Group operates;
- the potential exit by an EU Member State from the European Monetary Union, which could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects;
- the possible political, economic and regulatory impacts related to the United Kingdom's proposed withdrawal from the EU; and
- an eventual government default on or restructuring of public debt, which could affect the Group primarily in two ways: directly, through portfolio losses (the Group's main public debt exposures are in respect of Spain, Mexico, the United States and Turkey, which, as of 31st December, 2018, collectively amounted to €106,175 million or 15.7 per cent. of the Group's total consolidated assets) and indirectly, through instabilities that a default on or restructuring of public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several countries in which the Group operates.

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

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

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

The Group has historically developed its lending business in Spain, which continues to be one of the main focuses of its business, with total risks in financial instruments in Spain as of 31st December, 2018 amounting to €279,880 million or 37.1 per cent. of the Group's total risks in financial instruments of €755,369 million. 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 per cent. in 2015, 2016 and 2017 falling to 2.5 per cent. in 2018 and unemployment falling to 15.3 per cent. in 2018. While GDP growth is expected to remain positive in the next years, there is uncertainty regarding the sustainability of external growth as well as doubts over Spain's economic policy. Real or perceived difficulties in servicing public or private debt, triggered by foreign or domestic factors such as an increase in global financial risk or a decrease in the rate of domestic growth, could increase Spain's financing costs, hindering economic growth, employment and households' gross disposable income.

As of 31st December, 2018, the Group's loans and advances to customers in Spain amounted to €169,856 million, representing 45 per cent. of the Group's loans and advances to customers as shown in the Group's consolidated balance sheet. The Group's NPL ratio was 3.9 per cent. as of 31st

December, 2018, compared to 4.6 per cent., 4.9 per cent. and 5.4 per cent. as of 31st December, 2017, 2016 and 2015, respectively.

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

***The Group may be adversely affected by political events in Catalonia***

The Group's Spanish business includes extensive operations in Catalonia. Although actions carried out by the Spanish Government have helped diminish the level of uncertainty in the region resulting from its pro-independence movement, regional elections carried out in December 2017 resulted in pro-independence parties winning the majority of seats. As of the date of this Prospectus, there is still significant uncertainty regarding the outcome of political and social tensions in Catalonia, which could result in volatile capital markets and other financing conditions in Spain or otherwise adversely affect the environment in which the Group operates in Catalonia and the rest of Spain, any of which could have an adverse effect on the Group's business, liquidity, financial condition and results of operations. The Group's business in Catalonia represented, as of 31st December, 2018, 18.2 per cent. of the Group's business in Spain.

***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. As of 31st December, 2018, the Group's exposure to the public debt of Spain amounted to €48,473 million, representing 7 per cent. of the Group's total consolidated assets (and stood at 7 per cent. as of 31st December, 2017 and 6 per cent. as of 31st December, 2016).

***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, characterised, in some cases, by slow or declining growth, declining investment, volatile interest rates, volatile currency values, hyperinflation and political tension.

Emerging markets are generally subject to greater risks than more developed markets. For example, there is typically a greater risk of loss in operating in emerging markets from unfavourable political and economic developments, both global and domestic, social and geopolitical instability, changes in economic policies (such as monetary, fiscal and macroprudential policies) or governmental decisions, including expropriation, nationalisation, international ownership legislation, interest-rate caps, restrictions on business practices such as on commissions that can be charged, currency and exchange controls and tax policies and political unrest.

In particular, Argentina, where the Bank operates through BBVA Banco Francés, and Turkey, where it operates through Garanti, have recently experienced significant exchange rate volatility (for example, the Argentine peso lost a significant portion of its value against the U.S. dollar during the course of 2018), rapidly-increasing interest rates, and deteriorating economic conditions, adversely affecting the Bank's operations in such countries and the value of the related assets and liabilities when translated into euros.

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

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

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

As of 31st December, 2018 and 31st December, 2017: (i) the total assets of the Group's South America operating segment amounted to €52,385 million and €74,636 million, respectively, representing 7.7 per cent. and 10.8 per cent. of the Group's total assets, respectively; (ii) the total assets of the Group's Turkey operating segment amounted to €66,250 million and €78,694 million, respectively, representing 9.8 per cent. and 11.4 per cent. of the total assets of the Group, respectively; and (iii) the total assets of the Group's Mexico operating segment amounted to €96,455 and €94,061 million, respectively, representing 14.3 per cent. and 13.6 per cent. of the Group's total assets, respectively.

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

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



by 29th March, 2019, and no extension is agreed, the United Kingdom would automatically leave the European Union and European Union laws and regulations would cease to apply to the United Kingdom on such date unless the United Kingdom revokes its formal notice under Article 50 of the Treaty on European Union.

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

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

***The Group’s business could be adversely affected by global political developments, particularly with regard to U.S. policies that affect Mexico***

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

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

As such, there remains significant uncertainty as to whether USMCA will be ratified in its current form, or at all.

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

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

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

Regulatory, business, economic or political changes and other factors could lead to asset impairment. Severe market events such as the past sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures in recent years. Several factors could further depress the valuation of the Group's assets or otherwise lead to the impairment of such assets (including goodwill and deferred tax assets). Current political processes such as the implementation of Brexit, which may result in the United Kingdom leaving the European Union, the surge of populist trends in several European countries, increased trade tensions or potential changes in U.S. economic policies implemented by the U.S. administration could increase global financial volatility and lead to the reallocation of assets. Doubts regarding the asset quality of European banks also affected their evolution in the market in recent years. In addition, uncertainty about China's growth expectations and its policymaking capability to address certain severe challenges has contributed to the deterioration of the valuation of global assets and further increased volatility in the global financial markets. Additionally, in dislocated markets, hedging and other risk management strategies may not be as effective as they are in more normal market conditions due in part to the decreasing credit quality of hedge counterparties. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

***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. As of 31st December, 2018, 2017 and 2016, the Group's exposure to the construction sector and real estate activities in Spain stood at €11,045, €11,981 and €15,285 million, respectively, of which amounts risk from loans to construction and real-estate development activities accounted for €3,183, €5,224 and €7,930 million, respectively, representing 1.7 per cent., 2.9 per cent. and 5.0 per cent. of loans and advances to customers in the Spanish business's balance sheet (excluding public sector) and 0.5 per cent., 0.8 per cent. and 1.1 per cent. of the Group's total consolidated assets, respectively. The Group is further exposed to the real estate market due to the fact that real estate assets secure many of its outstanding loans and due to the significant amount of real estate assets held on its balance sheet and its stakes in real estate companies such as Metrovacesa, S.A. and Divarian Propiedad S.A. (**Divarian**). Any deterioration of real estate prices could materially and adversely affect the Group's business, financial condition and results of operations.

On 14th September, 2018, the Bank, together with other relevant shareholders of Testa Residencial SOCIMI, S.A. (**Testa**), signed a purchase and sale agreement with Tropic Real Estate Holding, S.L. (a company which is advised and managed by a private equity investment group controlled by Blackstone Group International Partners LLP) under which the Bank, subject to the completion of the transaction, transferred its 25.24 per cent. interest in Testa to Tropic Real Estate Holding, S.L. On

21st December, 2018, after having received all required authorisations, the Bank completed the sale of Testa to Tropic Real Estate Holding, S.L.

On 21st December, 2018, the Bank reached an agreement with Voyager Investing UK Limited Partnership, an entity managed by Canada Pension Plan Investment Board for the transfer of a portfolio of credit rights which is mainly composed by non-performing and in default mortgage credits, with an aggregate outstanding balance amounting to approximately €1,490 million. Completion of this transaction is subject to fulfilment of the relevant conditions and is expected to take place during the second quarter of 2019.

## **Liquidity and Financial Risks**

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

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

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

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

***Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for the Group to fund its business on favourable terms, cause the Group to take other actions or even lead to the exercise of any Spanish Bail-in Power***

Historically, one of the Group's principal sources of funds has been savings and demand deposits. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest-rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of administrative initiatives, including the exercise of any Spanish Bail-in Power and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. The introduction of a national tax on outstanding deposits could adversely affect the Group's activities, especially in Spain.

Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, or where such withdrawal specifically affects the Group, the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. Furthermore, in such an event, the Bank could be subject to the adoption of an early intervention or, ultimately, resolution measure by a Relevant Spanish Resolution Authority (as defined below) pursuant to Law 11/2015 (including, among others but without limitation, the Spanish Bail-in Power (as defined below) (including Non-Viability Loss Absorption)). See “—*The Preferred Securities may be subject to the exercise of the Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities*”.

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

In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures, and could be subject to the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 (including, among others but without limitation, the Spanish Bail-in Power (including Non-Viability Loss Absorption)).

As of 31st December, 2018, 2017 and 2016, the amount of customer deposits of the Group represented 74 per cent., 69 per cent. and 68 per cent., respectively, of the financial liabilities at amortised cost of the Group, on a consolidated basis.

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

The BCBS's net stable funding ratio (**NSFR**) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities such that banks maintain a stable funding profile in relation to their on- and off-balance sheet activities that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The BCBS contemplated that the NSFR, including any revisions, was to be implemented by member countries as a minimum standard by 1st January, 2018, with no phase-in.

While the NSFR has not yet been introduced, the EU Banking Reforms propose the introduction of a harmonised binding requirement for the NSFR across the EU.

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

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

The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant effect on the Group's earnings. Adverse changes in the credit quality of the Group's borrowers and counterparties or collateral, or in their behaviour 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.

The Group's maximum credit risk exposure as of 31st December, 2018 is set out below. This information does not take into account the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The details are broken down by financial instruments and counterparties.

Maximum Credit Risk Exposure (Millions of euros)				
	<b>2018</b>			
<b>Financial assets held for trading</b>	<b>59,581</b>			
Debt securities	25,577			
Equity instruments	5,254			
Loans and advances	28,750			
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>5,135</b>			
Loans and advances	1,803			
Debt securities	237			
Equity instruments	3,095			
<b>Financial assets designated at fair value through profit or loss</b>	<b>1,313</b>			
<b>Derivatives (trading and hedging)</b>	<b>38,249</b>	<b>Stage 1<sup>1</sup></b>	<b>Stage 2<sup>1</sup></b>	<b>Stage 3<sup>1</sup></b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>56,332</b>	<b>56,329</b>	<b>3</b>	<b>-</b>
Debt securities	53,737	53,734	3	-
Equity instruments	2,595	2,595	-	-
<b>Financial assets at amortized cost</b>	<b>431,927</b>	<b>384,632</b>	<b>30,902</b>	<b>16,394</b>
Loans and advances to central banks	3,947	3,947	-	-
Loans and advances to credit institutions	9,175	9,131	34	10
Loans and advances to customers	386,225	339,204	30,673	16,348
Debt securities	32,580	32,350	195	35
<b>Total financial assets risk</b>	<b>592,538</b>	<b>440,960</b>	<b>30,905</b>	<b>16,394</b>
<b>Total loan commitments and financial guarantees</b>	<b>170,511</b>	<b>161,404</b>	<b>8,120</b>	<b>987</b>
<b>Total maximum credit exposure</b>	<b>763,049</b>			

<sup>1</sup> There was no similar breakdown before the implementation of IFRS 9 on 1st January, 2018. The new standard classifies financial instruments into three categories, which depend on the evolution of their credit risk from the moment of initial recognition. The first category includes the transactions when they

are initially recognized (Stage 1); the second comprises the financial assets for which a significant increase in credit risk has been identified since its initial recognition (Stage 2) and the third one, the impaired financial assets (Stage 3).

The table below sets out the composition of the Group's doubtful or impaired loans and advances within financial assets at amortized cost, by sector, as of 31st December, 2018 and 2017, on a consolidated basis:

<b>Doubtful or impaired assets</b>	<b>31st December,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in millions of euros)</i>	
Central banks	-	-
General governments	128	171
Credit institutions	10	11
Other financial corporations	11	12
Non-financial corporations	8,372	10,791
Households	7,838	8,417
<b>Total</b>	<b>16,359</b>	<b>19,401</b>

The table below sets out the composition of the Group's impaired financial assets and guarantees given, as of 31st December, 2018 and 2017, on a consolidated basis:

#### **Impaired financial assets and guarantees given**

	<b>31st December, 2018</b>	<b>31st December, 2017</b>
	<i>(in millions of euros)</i>	
Total impaired financial assets	16,394	19,850
Impaired financial guarantees given	740	739
Total impaired financial assets and contingent risks	17,134	20,590

The Group's NPL ratio was 3.9 per cent. and 4.6 per cent. as of 31st December, 2018 and 2017, respectively (compared to 4.9 per cent. and 5.4 per cent. as of 31st December, 2016 and 31st December, 2015, respectively). The Group's non-performing loan coverage ratio was 73 per cent. and 65 per cent. as of 31st December, 2018 and 2017, respectively (compared to 70 per cent. and 74 per cent. as of 31st December, 2016 and 31st December, 2015, respectively).

Non-performing or low credit quality loans have in the past and can continue to negatively affect the Bank's results of operations. The Bank cannot assure that it will be able to effectively control the level of the impaired loans in its total loan portfolio. At present, default rates are partly cushioned by low rates of interest which have improved customer affordability, but the risk remains of increased default rates as interest rates start to rise. The timing, quantum and pace of any rise are key risk factors. All new lending is dependent on the Group's assessment of each customer's ability to pay, and there is an inherent risk that the Group has incorrectly assessed the credit quality or willingness of borrowers to pay, possibly as a result of incomplete or inaccurate disclosure by those borrowers or as a result of the inherent uncertainty that is involved in the exercise of constructing models to estimate the true risk of lending to counterparties. The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the Group's

results and financial condition, requires difficult, subjective and complex judgments, including forecasts of how macro-economic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to adequately identify the relevant factors or that it will fail to estimate accurately the effect of these identified factors, which could have a material adverse effect on the Group's business, financial condition or results of operations.

***The Group's business is particularly vulnerable to volatility in interest rates***

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

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

The table below shows the profile of average sensitivities to net interest income and value of the main entities in the Group as of December 2018:

**Sensitivity to interest rate analysis as of December, 2018**

	Impact on net interest income (*)		Impact on economic value (**)	
	100 bps Increase	100 bps Decrease	100 bps Increase	100 bps Decrease
Europe (***)	+ (5% - 10%)	- (5% - 10%)	+ (0% - 5%)	- (0% - 5%)
Mexico	+ (0% - 5%)	- (0% - 5%)	+ (0% - 5%)	- (0% - 5%)
United States	+ (5% - 10%)	- (5% - 10%)	- (5% - 10%)	+ (0% - 5%)
Turkey	+ (0% - 5%)	- (0% - 5%)	- (0% - 5%)	+ (0% - 5%)
South America	+ (0% - 5%)	- (0% - 5%)	- (0% - 5%)	+ (0% - 5%)
<b>The Group</b>	<b>+ (0% - 5%)</b>	<b>- (0% - 5%)</b>	<b>- (0% - 5%)</b>	<b>- (0% - 5%)</b>

(\*) Percentage of "1 year" net interest income forecast for each unit.

(\*\*) Percentage of Core Capital for each unit.

(\*\*\*) In Europe downward movement includes rates below current rates.

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

The Bank and certain of its subsidiaries are rated by various credit rating agencies. The credit ratings of the Bank and such subsidiaries are an assessment by rating agencies of their ability to pay their obligations when due. Any actual or anticipated decline in the Bank's or such subsidiaries' credit ratings to below investment grade or otherwise may increase the cost of and decrease the Group's ability to finance itself in the capital markets, secured funding markets (by affecting its ability to replace downgraded assets with better-rated ones), or interbank markets, through wholesale deposits

or otherwise, harm its reputation, require it to replace funding lost due to the downgrade, which may include the loss of customer deposits, and make third parties less willing to transact business with the Group or otherwise materially adversely affect its business, financial condition and results of operations. Furthermore, any decline in the Bank's or such subsidiaries' credit ratings to below investment grade or otherwise could breach certain agreements or trigger additional obligations under such agreements, such as a requirement to post additional collateral, which could materially adversely affect the Group's business, financial condition and results of operations. See “—*Any decline in the Kingdom of Spain's sovereign credit ratings could adversely affect the Group's business, financial condition and results of operations*”.

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

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

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

Some of the Group's operations are conducted through its financial services subsidiaries. As a result, the Bank's ability to pay dividends, to the extent the Bank decides to do so, depends in part on the ability of the Group's subsidiaries to generate earnings and to pay dividends to the Bank. Payment of dividends, distributions and advances by the Group's subsidiaries is contingent upon their earnings and business considerations and is or may be limited by legal, regulatory and contractual restrictions. For instance, the repatriation of dividends from the Group's Venezuelan and Argentinean subsidiaries have been subject to certain restrictions and there is no assurance that further restrictions will not be imposed. Additionally, the Bank's right to receive any assets of any of the Group's subsidiaries as an equity holder of such subsidiaries upon their liquidation or reorganisation will be effectively subordinated to the claims of subsidiaries' creditors, including trade creditors. The Group also has to comply with increased capital requirements, which could result in the imposition of restrictions or prohibitions on discretionary payments including the payment of dividends and other distributions to the Bank by its subsidiaries (see “—*Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*”).

**Business and Industry Risks**

***The Group faces increasing competition in its business lines***

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

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



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

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

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

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

In addition, the project of achieving a European capital markets union was launched by the European Commission as a plan to mobilise capital in Europe, being one of its main objectives to provide businesses with a greater choice of funding at lower costs and to offer new opportunities for savers and investors. These objectives are expected to be achieved by developing a more diversified financial system complementing bank financing with deep and developed capital markets, which may adversely affect the Group's business, financial condition and results of operations.

### ***The Group faces risks related to its acquisitions and divestitures***

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

will perform well once integrated. Acquisitions may also lead to potential write-downs due to unforeseen business developments that may adversely affect the Group's results of operations.

The Group's results of operations could also be negatively affected by acquisition or divestiture-related charges, amortisation of expenses related to intangibles and charges for impairment of long-term assets. The Group may be subject to litigation in connection with, or as a result of, acquisitions or divestitures, including claims from terminated employees, customers or third parties, and the Group may be liable for future or existing litigation and claims related to the acquired business because either the Group is not indemnified for such claims or the indemnification is insufficient. Further, in the case of a divestiture, the Group may be required to indemnify the buyer in respect of certain matters, including claims against the divested entity or business. Any of the foregoing could cause the Group to incur significant expenses and could materially adversely affect its business, financial condition and results of operations.

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

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

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

The outcome of legal and regulatory actions and proceedings, both those to which the Group is currently exposed and any others which may arise in the future, including actions and proceedings relating to former subsidiaries of the Group or in respect of which the Group may have indemnification obligations, is difficult to predict. However, in connection with such matters the Group may incur significant expense, regardless of the ultimate outcome, and any such matters could expose the Group to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional

litigation; criminal prosecution in certain circumstances; regulatory restrictions on the Group's business operations including the withdrawal of authorisations; changes in business practices; increased regulatory compliance requirements; the suspension of operations; public reprimands; the loss of significant assets or business; a negative effect on the Group's reputation; loss of confidence by investors, counterparties, customers, clients, supervisory authorities and other stakeholders; risk of credit rating agency downgrades; a potential negative impact on the availability and cost of funding and liquidity; and the dismissal or resignation of key individuals. There is also a risk that the outcome of any legal or regulatory actions or proceedings in which the Group is involved may give rise to changes in laws or regulations as part of a wider response by relevant lawmakers and regulators. A decision in any matter, either against the Group or another financial institution facing similar claims, could lead to further claims against the Group. In addition, responding to the demands of litigation may divert management's time and attention and the Group's financial resources. Moreover, where provisions have already been taken in connection with an action or proceeding, such provisions could prove to be inadequate.

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

***The Bank may be affected by actions that are incompatible with its ethics and compliance standards, and by the Bank's failure to timely detect or remedy any such actions***

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

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

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

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

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

The Group operates commercial banks and insurance and other financial services companies in various countries and its overall success as a global business depends upon its ability to succeed in differing economic, social and political conditions. The Group is particularly sensitive to developments in Mexico, the United States, Turkey and Argentina, which represented 14.3 per cent., 12.1 per cent., 9.8 per cent. and 1.2 per cent. of the Group's assets as at 31st December, 2018, respectively.

The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. See "*—Legal, Regulatory and Compliance Risks—Local regulation may have a material effect on the Bank's business, financial condition, results of operations and cash flows*". These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalisation or expropriation of assets. The Group's international operations may also expose it to risks and challenges which its local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, political risk which may be particular to foreign investors and limitations on the distribution of dividends. As of 31st December, 2018, 45.4 per cent. of the Group's assets and 44.6 per cent. of its liabilities were denominated in currencies other than euro.

The Group's structural exchange-rate risk exposure level has remained fairly stable since the end of 2016. The hedging policy is intended to keep low levels of sensitivity to movements in the exchange rates of emerging currencies against the euro and is mainly focused on the Mexican peso and Turkish lira. The risk mitigation level in the Group's capital ratio due to the book value of the Group's holdings in foreign emerging currencies stood at around 70 per cent. and, as of 31st December, 2018, CET1 ratio sensitivity to the appreciation of 1 per cent. in the euro exchange rate for each currency was: U.S. dollars 1.1 basis points; Mexican peso -0.2 basis points; Turkish lira -0.2 basis points; other currencies -0.2 basis points. On the other hand, the hedging of emerging-currency denominated earnings in 2018 reached 82 per cent., concentrated in Mexican peso and Turkish lira.

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**

***The Group's financial results, regulatory capital and ratios may be negatively affected by changes to accounting standards***

The Group reports its results and financial position in compliance with the EU-IFRS (as defined below) required to be applied under the Bank of Spain's Circular 4/2017, which replaced the Bank of Spain's Circular 4/2004 for financial statements relating to period ended 1st January, 2018 and thereafter. Changes to IFRS or interpretations thereof may cause the Group's future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such

changes may also affect the Group's regulatory capital and ratios. The Group monitors potential accounting changes and, when possible, the Group determines their potential impact and disclose significant future changes in the Group's financial statements that it expects as a result of those changes. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact the Group's reported results, financial position and regulatory capital in the future. For further information about developments in financial accounting and reporting standards, see Note 2.3 to the Consolidated Financial Statements ("Recent IFRS pronouncements").

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

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

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

Banks and their activities are increasingly dependent on highly sophisticated information technology (IT) systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centers. IT systems need regular upgrading and banks, including the Bank, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned.

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

Over the past few years, there have been a series of distributed denial of service attacks on financial services companies. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks have not been conducted to steal financial data, but meant to interrupt or suspend a company's internet service. While these events may not result in a breach of client data and account information, the attacks can adversely affect the

performance of a company's website and in some instances have prevented customers from accessing a company's website. Distributed denial of service attacks, hacking and identity theft risks could cause serious reputational harm. Cyber threats are rapidly evolving and the Group may not be able to anticipate or prevent all such attacks. The Group's risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, its plans to continue to provide internet banking and mobile banking channels, and its plans to develop additional remote connectivity solutions to serve its customers. The Group may incur increasing costs in an effort to minimise these risks and could be held liable for any security breach or loss.

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

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

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

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

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

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

Cybersecurity risks for banking organisations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the

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

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

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

### ***The Group could be the subject of misinformation***

The Group may be the subject of intentional misinformation and misrepresentations deliberately propagated to harm the Group’s reputation or for other deceitful purposes. Such misinformation could also be propagated by profiteering short sellers seeking to gain an illegal market advantage by spreading false information concerning the Group. No assurance can be given that the Group will effectively neutralise and contain any false information that may be propagated regarding the Group, which could have an adverse effect on the Group’s business, financial condition and results of operations.

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

The preparation of financial statements in compliance with IFRS requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include the classification, measurement and impairment of certain financial assets, the assumptions used to quantify certain provisions and for the actuarial calculation of post-employment benefit liabilities and commitments, the useful life and impairment losses of tangible and intangible assets, the valuation of goodwill and purchase price allocation of business combinations, the fair value of certain unlisted financial assets and liabilities, the recoverability of deferred tax assets and the exchange and inflation rates of Venezuela. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse effect on the Group's business, financial condition and results of operations.

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

The further development of standards and interpretations under IFRS could also significantly affect the results of operations, financial condition and prospects of the Group.

#### **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE PREFERRED SECURITIES**

***The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change and have a material adverse effect on the terms and market value of the Preferred Securities***

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Prospectus. Changes in the laws of Spain (including EU regulations) or their official interpretation by supervisory authorities such as the Bank of Spain or the ECB after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Preferred Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Preferred Securities, which may have an adverse effect on investment in the Preferred Securities.

Any such changes (including any future changes which may arise from the EU Banking Reforms) could impact the calculation of the CET1 ratios or the CET1 Capital of the Bank or the Group or the Risk Weighted Assets Amount of the Bank or the Group. Furthermore, because the occurrence of the Trigger Event and restrictions on Distributions where subject to a MDA depends, in part, on the calculation of these ratios and capital measures, any change in Spanish laws (including EU regulations) or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

Such calculations may also be affected by changes in applicable accounting rules, the Group's accounting policies and the application by the Group of these policies. Any such changes, including changes over which the Group has a discretion, may have a material adverse impact on the Group's reported financial position and accordingly may give rise to the occurrence of the Trigger Event in circumstances where such Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders.



Furthermore, any change in the laws or regulations of Spain, Applicable Banking Regulations or the application or binding official interpretation thereof may in certain circumstances result in the Bank having the option to redeem the Preferred Securities in whole but not in part (see “– *The Preferred Securities may be redeemed at the option of the Bank*”). In any such case, the Preferred Securities would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

Such legislative and regulatory uncertainty could affect an investor’s ability to value the Preferred Securities accurately and therefore affect the market price of the Preferred Securities given the extent and impact on the Preferred Securities of one or more regulatory or legislative changes.

***The Preferred Securities may be subject to the exercise of the Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities***

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

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorisation; (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). Any such determination that an institution is failing or likely to fail may depend on a number of factors which may be outside of that institution’s control.

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

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order: (i) CET1 items; (ii) the

principal amount of Additional Tier 1 capital instruments; (iii) the principal amount of Tier 2 capital instruments; (iv) the principal amount of other subordinated claims that are not Additional Tier 1 capital or Tier 2 capital; and (v) the principal or outstanding amount of the remaining eligible liabilities in the order of the hierarchy of claims in normal insolvency proceedings.

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

To the extent that any resulting treatment of a Holder of the Preferred Securities pursuant to the exercise of the Spanish Statutory Loss-Absorption Powers (except as indicated below with respect to Non-Viability Loss Absorption) is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a Holder of such affected Preferred Securities may have a right to compensation under the BRRD and the SRM Regulation based on an independent valuation of the institution, in accordance with Article 10 of RD 1012/2015 and the SRM Regulation. Any such compensation, together with any other compensation provided by any Applicable Banking Regulations (including, among other such compensation, in accordance with Article 36.5 of Law 11/2015) is unlikely to compensate that Holder for the losses it has actually incurred and, in any event, there is likely to be a considerable delay in the recovery of such compensation. In addition, in the case of a Non-Viability Loss Absorption, it is not clear that a Holder of the affected Preferred Securities would have a right to compensation under the BRRD and the SRM Regulation if any resulting treatment of such Holder pursuant to the exercise of the Non-Viability Loss Absorption was less favourable than would have been the case under such hierarchy in normal insolvency proceedings.

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 and the SRM Regulation impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, upon any application of the Spanish Bail-in Power or Non-Viability Loss Absorption, Holders of Preferred Securities may be subject to, among other things, a write-down (including to zero which, in the case of the Preferred Securities, would result in there being no conversion of the Preferred Securities) and/or conversion into equity or other securities or obligations of the Preferred Securities under terms different or less advantageous for Holders as compared to the conversion process envisaged under the Conditions. The exercise of any such powers (or any of the other resolution powers and tools) may result in such Holders losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected, including by becoming holders of further subordinated instruments such as the Common Shares. Such exercise could also involve modifications to, or the disapplication of, provisions in the Conditions of the Preferred Securities including, among other provisions, the Liquidation Preference or any Distributions payable on the Preferred Securities or the dates on which payments may be due, as well as the suspension of payments for a certain period (but without limiting the right of the Bank under Condition 4 of the Preferred Securities to cancel payment of any Distributions at any time and for any (or no) reason). As a result, the exercise of the Spanish Bail-in Power or, where applicable, the Non-Viability Loss Absorption with respect to the Preferred Securities or the taking by the relevant Spanish Resolution 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 Preferred Securities, the market price or value or trading behaviour of the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

The exercise of the Spanish Bail-in Power and/or Non-Viability Loss Absorption by the Relevant Spanish Resolution Authority with respect to the Preferred Securities 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 and may exercise any of its powers without any prior notice to the holders of any securities, Holders of the Preferred 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 Preferred Securities. The price and trading behaviour of the Preferred Securities may be affected by the threat of a possible exercise of any power under Law 11/2015 and/or the SRM Regulation (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Spanish Resolution Authority may exercise any such powers without providing any advance notice to the Holders of the Preferred Securities.

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

***Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities and could have a material adverse effect on the Bank's business, financial condition and results of operations***

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

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

In addition, as a result of the EU Banking Reforms, Directive (EU) 2017/2399 of the European Parliament and of the Council of 12th December, 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy was approved with the aim to harmonise national laws on insolvency and recovery and resolution of credit institutions and investment firms, by creating a new credit class of "non-preferred" senior debt that should only be

bailed-in after junior ranking instruments but before other senior liabilities. In this regard, on 23rd June, 2017 Royal Decree-Law 11/2017 of 23rd June on urgent measures in financial matters (*Real Decreto-ley 11/2017, de 23 de junio, de medidas urgentes en materia financiera*) introduced into Spanish law the new class of “non-preferred” senior debt.

On 9th November, 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 recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The TLAC Principles and Term Sheet require a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (i) 16 per cent. of risk-weighted assets as of 1st January, 2019 and 18 per cent. as of 1st January, 2022, and (ii) 6 per cent. of the Basel III Tier 1 leverage ratio exposure measured as of 1st January, 2019, and 6.75 per cent. as of 1st January, 2022. The Bank is no longer classified as a G-SIB by the FSB with effect from 1st January, 2017. However, if the Bank were to be so classified in the future or if TLAC requirements as set out below are adopted and implemented in Spain and extended to non-G-SIBs through the imposition of requirements similar to MREL as set out below, then this could create additional minimum requirements for the Bank.

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

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

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

Furthermore, in accordance with the EBA MREL Report, the EBA recommends that resolution authorities and competent authorities should engage in active monitoring of compliance with their respective requirements and considers that (i) the powers of resolution authorities to respond to a

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

Further, as outlined in the EBA MREL Report, the EBA's recommendation is that an institution will not be able to use the same CET1 capital to meet both MREL and the combined buffer requirements. In addition, the EU Banking Reforms provide that, in the case of the own funds of an institution that may otherwise contribute to the combined buffer requirement where there is any shortfall in MREL, this will be considered as a failure to meet the combined buffer requirement such that those own funds will automatically be used instead to meet that institution's MRELS and will no longer count towards its combined buffer requirement. Accordingly, this could trigger a limit on discretionary payments including, but not limited to, Distributions under the Preferred Securities (see "*Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*").

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

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

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

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

The EU Banking Reforms further include, as part of MREL, a new subordination requirement of eligible instruments for G-SIBs and "top tier" banks (including the Bank) that will be determined according to their systemic importance, involving a minimum "Pillar 1" subordination requirement. This "Pillar 1" subordination requirement shall be satisfied with own funds and other eligible MREL instruments (which MREL instruments may not for these purposes be senior debt instruments and only MREL instruments constituting "non-preferred" senior debt under the new insolvency hierarchy introduced into Spain as described above will be eligible for compliance with the subordination

requirement). For “top tier” banks such as the Bank, this “Pillar 1” subordination requirement has been determined as the higher of 13.5 per cent. of the Bank’s risk weighted assets (**RWAs**) or alternatively 5 per cent. of its leverage exposure. Resolution authorities may also impose further “Pillar 2” subordination requirements, which would be determined on a case-by-case basis but at a minimum level equal to the lower of 8 per cent. of a bank’s total liabilities and own funds and 27 per cent. of its RWAs.

Any failure or perceived failure by the Bank and/or the Group to comply with its MREL (including the subordination requirement) may have a material adverse effect on the Bank’s business, financial conditions and results of operations and could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities. There can also be no assurance as to the relationship between the “Pillar 2” additional own funds requirements, the “combined buffer requirement”, the MRELS (once implemented in Spain) and the restrictions or prohibitions on discretionary payments.

***The Preferred Securities are irrevocably and mandatorily convertible into newly issued Common Shares in certain prescribed circumstances***

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) converted (which calculation is made by the Bank and shall be binding on the Holders) into newly issued Common Shares. Because the Trigger Event will occur when the CET1 ratio of the Bank or the Group will have deteriorated significantly, the occurrence of such Trigger Event will likely be accompanied by a prior deterioration in the market price of the Common Shares, which may be expected to continue after announcement of such Trigger Event.

Therefore, in the event of the occurrence of the Trigger Event, the Reference Market Price of a Common Share may be below the Floor Price, and investors could receive Common Shares at a time when the market price of the Common Shares is considerably less than the Conversion Price. In addition, there may be a delay in a Holder receiving its Common Shares following the Trigger Event, during which time the market price of the Common Shares may fall further. As a result, the value of the Common Shares received on conversion following the Trigger Event could be substantially lower than the price paid for the Preferred Securities at the time of their purchase.

In addition to the occurrence of the Trigger Event, a Capital Reduction will also constitute a Conversion Event. For these purposes a Capital Reduction means the adoption, in accordance with Article 418.3 of the Spanish Corporations Law, by a general shareholders' meeting of the Bank of a resolution of capital reduction by reimbursement of cash contributions (*restitución de aportaciones*) to shareholders by way of a reduction in the nominal value of the shares of such shareholders in the capital of the Bank. A resolution of capital reduction for the redemption of any Common Shares previously repurchased by the Bank will not be considered a Capital Reduction for the purposes of the Conditions.

Article 418.3 of the Spanish Corporations Law provides for holders of convertible securities in the event of any such capital reduction to be able to exercise their rights in respect of the conversion of such securities into ordinary shares in the capital of the issuer before the capital reduction is effected. Such conversion is intended to ensure holders of convertible securities are not detrimentally affected by the decapitalisation of the issuer resulting from such capital reduction and may participate in the reimbursement of the relevant cash contributions as shareholders and, thereby, also benefit from such reimbursement.

As a result, the Preferred Securities will also be converted into Common Shares in the event of a Capital Reduction notwithstanding that the Trigger Event has not occurred. However, each Holder will have the right to elect that its Preferred Securities shall not be converted on such Capital Reduction by delivery of a duly completed and signed Election Notice as provided in Condition 6.2 on or before the 10th Business Day immediately following the Capital Reduction Notice Date. Any

failure to make such election by such deadline will result in the conversion of a Holder's Preferred Securities on such Conversion Settlement Date in accordance with Condition 6.2.

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Common Shares in the case of a Conversion Event. See also “*Holders will bear the risk of fluctuations in the price of the Common Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event*” below.

***The circumstances that may give rise to the Trigger Event are unpredictable***

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank’s control. For example, the occurrence of one or more of the risks described under “*Risk Factors – Factors that may affect the Bank’s ability to fulfil its obligations under the Preferred Securities*”, or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event.

Furthermore, the occurrence of the Trigger Event depends, in part, on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the business and future earnings of the Bank and/or the Group, as applicable; the mix of businesses; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible changes in regulatory capital definitions and calculations of the CET1 ratios and their components or the interpretation thereof by the relevant authorities, including CET1 Capital and risk weighted assets, in each case on either an individual or a consolidated basis, and the unwinding of transitional provisions under CRD IV); changes in the Bank’s structure or organisation and the Bank’s ability to actively manage the risk weighted assets of the Bank and the Group. The CET1 ratio of the Bank or the Group at any time may also depend on decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position. Holders will not have any claim against the Bank or any other member of the Group in relation to any such decision. In addition, since the Regulator may require the Bank to calculate the CET1 ratio at any time, a Trigger Event could occur at any time.

Due to the inherent uncertainty in advance of any determination of such event regarding whether the Trigger Event may exist, it will be difficult to predict when, if at all, the Preferred Securities will be converted into Common Shares. Accordingly, trading behaviour in respect of the Preferred Securities is not necessarily expected to follow trading behaviour associated with other types of convertible or exchangeable securities. Any indication that the Bank and/or the Group, as applicable, is trending towards the Trigger Event can be expected to have an adverse effect on the market price of the Preferred Securities and on the price of the Common Shares. Under such circumstances, investors may not be able to sell their Preferred Securities easily or at prices comparable to other similar yielding instruments.

***Holders will bear the risk of fluctuations in the price of the Common Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event***

The market price of the Preferred Securities is expected to be affected by fluctuations in the market price of the Common Shares, in particular if at any time there is a significant deterioration in the CET1 ratio by reference to which the determination of any occurrence of the Trigger Event is made, and it is impossible to predict whether the price of the Common Shares will rise or fall. Market prices of the Common Shares will be influenced by, among other things, the financial position of the Group, the results of operations and political, economic, financial and other factors. Any decline in the market price of the Common Shares or any indication that the CET1 ratio is trending towards occurrence of the Trigger Event may have an adverse effect on the market price of the Preferred Securities. The level of the CET1 ratio specified in the definition of Trigger Event may also significantly affect the market price of the Preferred Securities and/or the Common Shares.

Fluctuations in the market price of the Common Shares between the Conversion Notice Date and the Conversion Settlement Date may also further affect the value to a Holder of any Common Shares delivered to that Holder on the Conversion Settlement Date.

Furthermore, in accordance with Condition 6.10 any costs incurred by the Settlement Shares Depository or any parent, subsidiary or affiliate of the Settlement Shares Depository in connection with the holding by the Settlement Shares Depository of any Common Shares and any amount received in respect thereof shall be deducted by the Settlement Shares Depository from such amount prior to the delivery of such Common Shares and payment of such amount to the relevant Holder.

***The Preferred Securities are perpetual***

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption. It is only in the event of any voluntary or involuntary liquidation or winding-up of the Bank, that the Preferred Securities will confer on Holders an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution and then only in the event that such liquidation occurs prior to a conversion into Common Shares.

***The Preferred Securities may be redeemed at the option of the Bank***

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator, at any time on or after the First Reset Date, at the Redemption Price per Preferred Security and otherwise in accordance with Applicable Banking Regulations then in force. Under the CRR, the Regulator may give its consent to a redemption or repurchase of the Preferred Securities in such circumstances provided that either of the following conditions is met:

- (i) on or before such redemption of the Preferred Securities, the Bank replaces the Preferred Securities with instruments qualifying as Tier 1 Capital of an equal or higher quality on terms that are sustainable for the income capacity of the Bank; or
- (ii) the Bank has demonstrated to the satisfaction of the Regulator that its Tier 1 Capital and Tier 2 Capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Regulator may consider necessary on the basis set out in CRD IV.

The procedure by which such consent is to be obtained is further prescribed in Articles 29 to 31 of Commission Delegated Regulation (EU) No. 241/2014 of 7th January, 2014.

In the case of any early redemption of the Preferred Securities at the option of the Bank at any time on or after the First Reset Date, the Bank may be expected to exercise this option when its funding costs are lower than the Distribution Rate at which Distributions are then payable in respect of the Preferred Securities. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that Distribution Rate.

In addition, the redemption feature of the Preferred Securities is likely to limit their market value. During any period when the Bank has the right to elect to redeem the Preferred Securities, the market value of the Preferred Securities is unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to such period.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank (in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event.

Under the Preferred Securities, a Capital Event is any change (or any pending change which the Regulator considers sufficiently certain) in Spanish law or Applicable Banking Regulations that results (or would result) in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital. See also Condition 7.3.



For the purposes of the Preferred Securities, a Tax Event arises where as a result of any change in, or amendment to, the laws or regulations applicable in Spain or any change in the application or binding official interpretation or administration of any such laws or regulations, which change or amendment, or change in the application or binding official interpretation or administration, becomes effective on or after the Closing Date (a) the Bank would not be entitled to claim a deduction in computing its taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts pursuant to Condition 12, or (c) the applicable tax treatment of the Preferred Securities would be materially affected. See also Condition 12.

If any notice of redemption of the Preferred Securities is given pursuant to Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on such redemption date and, instead, the Conversion of the Preferred Securities shall take place as provided under Condition 6.

It is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or, in the case of a redemption of the Preferred Securities upon the occurrence of a Tax Event, the application or binding official interpretation or administration thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Preferred Securities, and if so whether or not the Bank will elect to exercise such option to redeem the Preferred Securities or any prior consent of the Regulator required for such redemption will be given. There can be no assurance that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Preferred Securities.

***Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions***

The Preferred Securities accrue Distributions as further described in Condition 4, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and for any (or no) reason and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items. To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items, and/or (ii) the Regulator, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations then in force, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

No payment will also be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the MDA (if any) then applicable to the Bank and/or the Group to be exceeded. See further “*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements may restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. However, many aspects of the manner in which such restrictions will be implemented remain uncertain*” below.

There can, therefore, be no assurance that a Holder will receive payments of Distributions in respect of the Preferred Securities. The payment of any additional amounts in respect of the Preferred Securities pursuant to Condition 12 is also subject to the same conditions as for the payment of any Distribution.

Unpaid Distributions are not cumulative or payable at any time thereafter and, accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any requirement for, or election of, the Bank to cancel such Distributions then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

No such election to cancel the payment of any Distribution (or part thereof) or non-payment of any Distribution (or part thereof) will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank. However, the Preferred Securities may trade with accrued interest, which may be reflected in the trading price of the Preferred Securities such that the cancellation of any Distribution may negatively impact such trading price and Holders' ability to sell their Preferred Securities in the secondary market and, as a result, the value of their investment in the Preferred Securities.

If, as a result of any of the conditions set out above being applicable, only part of the Distributions under the Preferred Securities may be paid, the Bank may proceed, in its sole discretion, to make such partial Distributions under the Preferred Securities.

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank may use such cancelled payments without restriction to meet its obligations as they fall due and the Bank will not be in any way limited or restricted from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security, except to the extent otherwise provided by Applicable Banking Regulations.

Furthermore, upon the occurrence of a Trigger Event, no further Distributions on the Preferred Securities will be made, including any accrued and unpaid Distributions, which will be cancelled.

***Payments of Distributions on the Preferred Securities may be restricted as a result of a failure of the Bank to comply with its capital requirements. However, many aspects of the manner in which such restrictions will be implemented remain uncertain.***

Under CRD IV, institutions must comply with a number of capital requirements (see “*Increasingly onerous capital requirements may have a material adverse effect on the Bank’s business, financial condition and results of operations*”).

As is also discussed above, in accordance with Article 48 of Law 10/2014, Article 73 of RD 84/2015 and Rule 24 of Bank of Spain Circular 2/2016 (which implement Article 141 of the CRD IV Directive), an entity not meeting its “combined buffer requirement” must calculate its MDA and until the MDA has been calculated and communicated to the Bank of Spain, that entity shall not make any discretionary payments. Following such calculation, any discretionary payments by that entity (including the payment of any Distributions on the Preferred Securities) will be subject to the MDA so calculated. See “*Factors that may affect the Bank’s ability to fulfil its obligations under the Preferred Securities – Increasingly onerous capital requirements may have a material adverse effect on the Bank’s business, financial condition and results of operations*” above.

In accordance with Article 73 of RD 84/2015 and Rule 24 of the Bank of Spain Circular 2/2016, restrictions on discretionary payments will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution generated since the last annual decision on the distribution of profits. Such calculation will result in a MDA in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no discretionary payments will be permitted to be made. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce

discretionary payments (in whole or in part), including payments of Distributions in respect of the Preferred Securities.

There are a number of factors that make the determination and application of the MDA particularly complex, including the following:

- the MDA applies when the “combined buffer requirement” is not maintained. The “combined buffer requirement” represents the amount of capital that a financial institution is required to maintain beyond the minimum “Pillar 1” and (if applicable) “Pillar 2” capital requirements. However, there are several different buffers, some of which are intended to encourage countercyclical behaviour (with extra capital retained when profits are robust) and others of which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk;
- the capital conservation buffer, the institution-specific countercyclical buffer and, in the case of the Bank, the D-SIB buffer were implemented on 1st January, 2016 on a phased-in basis until 2019. The systemic risk buffer may be applied at any time upon decision of the relevant authorities. As a result, the potential impact of the MDA will change over time;
- the MDA calculation could be different for the Bank on a consolidated and on an individual basis and different capital buffers could also apply. In addition, if a capital buffer is not respected, it is not completely clear the extent to which the Bank’s consolidated as compared to its individual net income may be taken into account in different circumstances. It is also possible that some discretionary payments will affect the MDA on a consolidated but not an individual basis for the Bank and *vice versa*; and
- payments made earlier in the year will reduce the remaining MDA available for payments later in the year, and the Bank will have no obligation to preserve any portion of the MDA for payments scheduled to be made later in a given year. Even if the Bank attempts to do so, there can be no assurance that it will be successful, as the MDA at any time will depend on the amount of net income earned during the course of the relevant year, which will necessarily be difficult to predict.

These and other possible interpretation issues (including any future changes which may arise from the EU Banking Reforms) make it difficult to determine how the MDA will apply as a practical matter to limit Distributions on the Preferred Securities. This uncertainty and the resulting complexity may adversely impact the market price and liquidity of the Preferred Securities.

Whether Distributions on the Preferred Securities may be subject to a MDA as a result of a breach of the “combined buffer requirement” will depend, among other things, on the applicable capital requirements, the amount of CET1 capital and the “distributable profits” of the Bank and/or the Group, as applicable, which can be affected by, among other things, regulatory developments, management decisions taken by the Group, and other such considerations similar to those discussed above in relation to the circumstances that may give rise to a Trigger Event. See “*–The circumstances that may give rise to a Trigger Event are unpredictable*” above. Holders will not have any claim against the Bank or any other member of the Group in relation to any such decision.

It remains unclear as to whether any TLAC requirements and/or MREL will also be considered to comprise part of an institution’s minimum “own funds” requirements, thereby making compliance with the “combined buffer requirement” more demanding and increasing the risk of cancellation (in whole or in part) of Distributions on the Preferred Securities. See further “*–Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities and could have a material adverse effect on the Bank’s business, financial condition and results of operations*” above.

Furthermore, any determination of the capital of the Bank and/or the Group and the compliance of the Bank and/or the Group with the respective capital requirements that may be imposed from time to time will involve consideration of a number of factors any one or combination of which may not be easily observable or capable of calculation by Holders and some of which may also be outside of the control of the Bank and/or the Group. The risk of any cancellation (in whole or in part) of Distributions on the Preferred Securities may not, therefore, be possible to predict in advance and any such cancellation of Distributions on the Preferred Securities could occur without warning.

***There are no events of default***

Holders have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution in whole or in part at any time and as further contemplated in Condition 4 (see “– *Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*”) and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank.

Further, a Trigger Conversion will not constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank.

If Common Shares are not issued and delivered following a Conversion Event, then on a liquidation or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation or winding-up.

***Holders of the Preferred Securities only have a limited ability to cash in their investment in the Preferred Securities***

The Preferred Securities are perpetual. The Bank has the option to redeem or purchase the Preferred Securities in certain circumstances (see “–*The Preferred Securities may be redeemed at the option of the Bank*” above). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 7 and 8). There can be no assurance that Holders will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

Therefore, Holders have no ability to cash in their investment, except:

- (i) if the Bank exercises its rights to redeem or purchase the Preferred Securities in accordance with Conditions 7 and 8; or
- (ii) by selling their Preferred Securities or, following the occurrence of a Conversion Event and the issue and delivery of Common Shares in accordance with Condition 6, their Common Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Common Shares (see “*Risks related to the Market Generally – The secondary market generally*”).

If the Bank exercised its right to redeem or purchase the Preferred Securities in accordance with Condition 7 but failed to make payment of the relevant Liquidation Preference to redeem the Preferred Securities when due, such failure would not constitute an event of default but would entitle Holders to bring a claim for breach of contract against the Bank, which, if successful, could result in damages.

### ***Holders have limited anti-dilution protection***

The number of Common Shares to be issued and delivered on Conversion in respect of each Preferred Security shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Conversion Notice Date. The Conversion Price will be, if the Common Shares are then admitted to trading on a Relevant Stock Exchange, the higher of: (a) the Reference Market Price of a Common Share, (b) the Floor Price and (c) the nominal value of a Common Share (being €0.49 on the Closing Date) or, if the Common Shares are not then admitted to trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 6 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Common Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Common Shares, but only in the situations and to the extent provided in Condition 6.4. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Common Shares or that, if a Holder were to have held the Common Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

Furthermore, the Conditions do not provide for certain undertakings from the Bank which are sometimes included in securities that convert into the ordinary shares of an issuer to protect investors in situations where the relevant conversion price adjustment provisions do not operate to neutralise the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Common Shares nor an undertaking restricting issues of new share capital with preferential rights relative to the Preferred Securities.

Further, if the Bank issues any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares and such Dividend does not constitute an Extraordinary Dividend, no Floor Price adjustment shall be applicable in accordance with Conditions 6.4.2 and 6.4.3, and therefore Holders will not be protected by anti-dilution measures.

Accordingly, corporate events or actions in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Preferred Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Bank may need to raise additional capital. Further capital raisings by the Bank could result in the dilution of the interests of the Holders, subject only to the limited anti-dilution protections referred to above.

### ***The obligations of the Bank under the Preferred Securities are subordinated and will be further subordinated upon conversion into Common Shares***

The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in the case of insolvency (*concurso de acreedores*) of the Bank, rank as set out in Condition 3 in accordance with Article 92.2° of the Insolvency Law read in conjunction with Additional Provision 14.3 of Law 11/2015 but only to the extent permitted by the Insolvency Law or any other applicable laws relating to or affecting the enforcement of creditors' rights in Spain and subject to any other ranking that may apply as a result of any mandatory provision of law. For these purposes as of the date of this Prospectus and according to Additional Provision 14.3 of Law 11/2015, the ranking of the Preferred Securities, any Parity Securities and any other subordinated obligations of the Bank may depend on whether those obligations constitute at the relevant time an Additional Tier 1 Instrument or a Tier 2 Instrument of the Bank or a subordinated obligation of the Bank not

constituting Additional Tier 1 Capital or Tier 2 Capital of the Bank. See Condition 3 for the complete provisions regarding the ranking of the Preferred Securities.

In addition, if the Bank were wound up, liquidated or dissolved, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other subordinated claims ranking ahead of any obligations of the Bank in respect of the Preferred Securities. If the Bank does not have sufficient assets to settle claims of prior ranking creditors in full, the claims of the Holders under the Preferred Securities will not be satisfied. Holders will share equally in any distribution of assets with the holders of any other Parity Securities if the Bank does not have sufficient funds to make full payment to all of them. In such a situation, Holders could lose all or part of their investment.

Furthermore, if a Conversion Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to the Conditions is still to take place at the time of the liquidation or winding-up of the Bank, the entitlement of Holders will be to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation or winding-up.

Therefore, if a Conversion takes place, each Holder will be effectively further subordinated from being the holder of a subordinated debt instrument to being the holder of Common Shares and there is an enhanced risk that Holders will lose all or some of their investment.

***If a Delivery Notice is not duly delivered by a Holder, any Common Shares underlying the relevant Preferred Securities will be sold and that Holder will bear the risk of fluctuations in the price of the Common Shares***

In order to obtain delivery of the relevant Common Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice through the relevant Iberclear Member and in accordance with applicable Iberclear procedures and the provisions set out under Condition 6. If a duly completed Delivery Notice is not so delivered, then a Holder will bear the risk of fluctuations in the price of the Common Shares that may further affect the value of any Common Shares subsequently delivered. The Common Shares corresponding to the Preferred Securities in respect of which no duly completed Delivery Notice has been delivered on or before the Notice Cut-off Date shall be delivered by the Bank to the Settlement Shares Depository on the Conversion Settlement Date through Iberclear. Within ten Business Days following the Conversion Settlement Date, the Settlement Shares Depository shall procure that all Common Shares so received are sold as soon as reasonably practicable and (subject to the deduction by or on behalf of the Settlement Shares Depository of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Settlement Shares Depository in connection with the sale and allotment thereof) the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 4.2 or in such other manner and at such time as the Bank shall determine and notify to the relevant Holders.

Due to the fact that, in the event of a Conversion Event, investors are likely to receive Common Shares at a time when the market price of the Common Shares is very low, the cash value of the Common Shares received upon any such sale could be substantially lower than the price paid for the Preferred Securities at the time of their purchase. In addition, the proceeds of such sale may be further reduced as a result of the number of Common Shares offered for sale at the same time being much greater than may be the case in the event of sales by individual Holders.

***There are limited remedies available under the Preferred Securities***

There are no events of default under the Preferred Securities (see “– *There are no events of default*”). In the event that the Bank fails to make any payments (where such payments are not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4) or deliver any

Common Shares when the same may be due, the remedies of Holders are limited to bringing a claim for breach of contract.

***Holders may be obliged to make a takeover bid in case of a Conversion Event if they take delivery of Common Shares***

Upon the occurrence of a Conversion Event, a Holder receiving Common Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to the consolidated text of the Securities Market Law (*Ley del Mercado de Valores*) currently approved by Royal Legislative Decree 4/2015, of 23rd October, as amended and Royal Decree 1066/2007, of 27th July (*Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores*), as amended, which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21st April, 2004, if its aggregate holding in the Bank is equal to or exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent. of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Common Shares.

***Holders may be subject to disclosure obligations and/or may need approval by the Bank's Regulator***

As the Preferred Securities are convertible into Common Shares in certain circumstances, an investment in the Preferred Securities may result in Holders, upon conversion of their Preferred Securities into Common Shares, having to comply with certain approval and/or disclosure requirements pursuant to Spanish laws and regulations or the laws and regulations of any other jurisdiction in which the Common Shares are then listed. Non-compliance with such approval and/or disclosure requirements may lead to the incurrence by Holders of substantial fines and/or suspension of voting rights associated with the Common Shares.

***There is no restriction on the amount or type of further securities or indebtedness which the Bank may incur***

There is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Preferred Securities. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation or winding-up of the Bank in respect of the Preferred Securities and may limit the ability of the Bank to meet its obligations in respect of the Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Common Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

***Prior to the issue and registration of the Common Shares to be delivered following the occurrence of a Conversion Event, Holders will not be entitled to any rights with respect to such Common Shares, but will be subject to all changes made with respect to the Common Shares***

Any pecuniary rights with respect to the Common Shares, in particular the entitlement to dividends shall only arise and the exercise of voting rights and rights related thereto with respect to any Common Shares is only possible after the date on which, following Conversion, as a matter of Spanish law the relevant Common Shares are issued and the person is entitled to these rights in accordance with the registry of Iberclear and its participating entities, and subject to applicable Spanish law and the limitations provided in the articles of association of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Common Shares after the occurrence of a Conversion Event shall result in the Holders not receiving any benefits related to the holding of the Common Shares and, on a liquidation or winding-up of the Bank, the entitlement of any such Holders will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to

that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation or winding-up, as more particularly described in Condition 5.2. Furthermore, under Spanish law only the holders of the shares according to the registry kept by Iberclear are entitled to exercise voting, pre-emptive and other rights in respect of such shares.

***The terms of the Preferred Securities contain a waiver of set-off rights***

No holder of the Preferred Securities may at any time exercise or claim any Waived Set-Off Rights (as defined in Condition 1.1) against any right, claim or liability of the Bank or that the Bank may have or acquire against such holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind, whether or not relating to such Preferred Securities).

The Conditions of the Preferred Securities provide that Holders shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. As a result, Holders will not at any time be entitled to set-off the Bank's obligations under the Preferred Securities against obligations owed by them to the Bank.

**RISKS RELATED TO THE PREFERRED SECURITIES GENERALLY**

***The Preferred Securities may not be a suitable investment for all investors***

The Preferred Securities are complex financial instruments and are not a suitable or appropriate investment for all investors and, in particular, are not suitable or appropriate for retail investors. Each potential investor in the Preferred Securities must determine if it is permitted to subscribe for or purchase the Preferred Securities in accordance with the restrictions on such subscription and purchase as set out in this Prospectus and the Conditions, and the suitability of that investment in light of its own circumstances and needs. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Prospectus, taking into account that the target market for the Preferred Securities is eligible counterparties and professional clients only (each as defined in MiFID II);
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;
- (iii) has sufficient risk tolerance and financial resources and liquidity to bear losses as well as all of the risks of an investment in the Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Conversion of the Preferred Securities into Common Shares, and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Preferred Securities unless it has the knowledge and expertise (either alone or with its financial and other professional advisers) to evaluate how the Preferred Securities will perform under changing conditions, the resulting effects on the value of the



Preferred Securities and the impact this investment will have on the potential investor's overall investment portfolio.

### ***Spanish tax rules***

Article 44 of Royal Decree 1065/2007 of 27th July, as amended by Royal Decree 1145/2011 of 29th July (as so amended, **RD 1065/2007**) sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. The procedures apply to interest deriving from preferred securities (*participaciones preferentes*) and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

According to the wording of section 4 of Article 44 of RD 1065/2007, income derived from securities originally registered with Iberclear will be paid by the Bank net of Spanish withholding tax (currently, at a rate of 19 per cent.) if the recipient of the payment is an individual resident in Spain for tax purposes and subject to Spanish Personal Income Tax (**PIT**). The Bank will not pay any additional amounts in respect of any such withholding tax.

On the other hand, Distribution payments made by the Bank in respect of the Preferred Securities for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish Corporate Income Tax taxpayers, will not be subject to Spanish withholding tax, provided that the Iberclear Members that have the Preferred Securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Bank, in a timely manner, with a duly executed and completed statement (a **Payment Statement**), in accordance with section 4 of Article 44 of Royal Decree 1065/2007, with the following information:

- (i) identification of the Preferred Securities;
- (ii) total amount of the income paid by the Bank;
- (iii) amount of the income corresponding to individuals' residents in Spain that are PIT taxpayers; and
- (iv) amount of the income that must be paid on a gross basis.

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to the Bank in a timely manner in respect of any Distribution payment made by the Bank under the Preferred Securities, such payment will be made net of Spanish withholding tax, currently at the rate of 19 per cent.

Should this occur, affected beneficial owners would receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to the Bank no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish Non-Resident Income Tax Law (**NRIT**) (see the "*Taxation*" section).

**Prospective investors should note that the Bank does not accept any responsibility relating to the lack of delivery of a duly executed and completed Payment Statement by Iberclear Members in connection with each payment of income under the Preferred Securities. Accordingly, the Bank will not be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose Distribution payments are nonetheless paid net of Spanish withholding tax because the Payment Statement was not duly delivered to the Bank. Moreover, the Bank will not pay any additional amounts with respect to any such withholding tax.**

Notwithstanding the foregoing, the Bank has agreed that in the event withholding tax should be required by law, the Bank shall pay such additional amounts as would have been received had no such withholding or deduction been required, except as provided in Condition 12 and as otherwise described in this Prospectus.

In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Bank will notify the Holders of such information procedures and their implications, as the Bank may be required to apply withholding tax on Distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

Holders must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Preferred Securities. The Bank does not assume any responsibility in this regard.

***In certain circumstances Holders may be bound by modifications to the Preferred Securities to which they did not consent***

The Conditions contain provisions for calling meetings of Holders to consider matters affecting the interests of Holders generally. These provisions permit defined majorities to bind all Holders including those Holders who did not attend and vote at the relevant meeting and who voted in a manner contrary to the majority.

If a Capital Event or Tax Event, as applicable, occurs and is continuing, the Bank may substitute or modify the terms of the Preferred Securities so that the Preferred Securities once again become or remain Qualifying Preferred Securities (as defined in Condition 11.2), provided that any variation in the terms of the Preferred Securities resulting from such substitution or modification is not materially prejudicial to the interests of the Holders. See Condition 11.2.

There can be no assurance as to how the terms of any Qualifying Preferred Securities resulting from any such substitution or modification will be viewed by the market or whether any such Qualifying Preferred Securities will trade at prices that are at least equivalent to the prices at which the Preferred Securities would have traded on the basis of their original terms.

In addition, the Bank will not be under any obligation to have regard to the tax position of any Holders in connection with any such substitution or modification of the Preferred Securities or to the tax consequences of any such substitution or modification for individual Holders. No Holder shall be entitled to claim any indemnification or payment from or have any other recourse to the Bank or any other person, in respect of any tax consequences of any such substitution or modification for that Holder.

## **RISKS RELATED TO THE MARKET GENERALLY**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

### ***The secondary market generally***

Although the Preferred Securities have been registered with Iberclear as managing entity of the central registry of the Spanish clearance and settlement system (the **Spanish Central Registry**) and application has been made for admission to listing and trading on AIAF, there is no assurance that such application will be accepted or that an active trading market will develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. Even if a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 8 or any Capital Reduction Conversion as provided in Condition 6.2. The market price of the Preferred

Securities could also be affected by market conditions more generally and other factors outside of the Bank's control which are unrelated to the Group's business, financial condition and results of operations. Therefore, investors may not be able to sell their Preferred Securities at a particular time or at favourable prices or at a price that will provide them with a yield comparable to similar investments that have a developed secondary market. No assurance can be given that an active market for the Preferred Securities will develop or, if developed, that it will continue and such illiquidity may have an adverse effect on the market value of the Preferred Securities.

***As the Preferred Securities are registered with Iberclear investors will have to rely on their procedures for transfer, payment and communication with the Bank***

The Preferred Securities have been registered with Iberclear. Consequently, no physical notes of any kind have been or will be issued. Clearing and settlement relating to the Preferred Securities, as well as payments thereunder, will be performed within Iberclear's dematerialised account-based system. Investors are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Preferred Securities is evidenced by dematerialised book entries (*anotaciones en cuenta*), and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the respective participating entities in Iberclear as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the relevant Preferred Securities recorded therein.

The Bank will discharge its payment obligation under the Conditions by making payments through Iberclear. Holders of the Preferred Securities must rely on the procedures of Iberclear and its participants to receive payments. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, holders of the Preferred Securities according to book entries and registries as described in the previous paragraph. In addition, the Bank has no responsibility for the proper performance by Iberclear or their participants of their obligations under their respective rules and operating procedures.

***An investor holding Preferred Securities which are not denominated in the investor's home currency will be exposed to movements in exchange rates adversely affecting the value of its investment. In addition, investors may not receive payments due on the Preferred Securities as a result of the imposition of exchange controls in relation to the Preferred Securities***

Payments made by the Bank in respect of the Preferred Securities will be in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption monies payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Bank to make payments in respect of the Preferred Securities. As a result, investors may receive less than expected, or may receive nothing at all.

***Interest rate risk***

Investment in the Preferred Securities involves the risk that changes in market interest rates may adversely affect the value of the Preferred Securities.

***Any regulation and reform of the 5-year Mid-Swap Rate may adversely affect the value of the Preferred Securities***

The calculation of any Distributions in respect of the Preferred Securities from and including the First Reset Date are dependent upon the relevant 5-year Mid-Swap Rate as determined at the relevant time (as specified in the Conditions). Certain interest rates and indices which are deemed to be “benchmarks” (including the 5-year Mid-Swap Rate) have been the subject of recent national and international regulatory guidance and proposals for reform, such as the announcement made on 27th July, 2017 by the Chief Executive of the FCA, which regulates LIBOR, that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Some of these reforms are already effective whilst others are still to be implemented. Any such reforms may cause such “benchmarks” to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the value or liquidity of, and return on, the Preferred Securities.

The Benchmarks Regulation was published in the Official Journal of the EU on 29th June, 2016 and applies from 1st January, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Bank) of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on the Preferred Securities, in particular, if the methodology or other terms of any “benchmarks” such as the 5-year Mid-Swap Rate are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant “benchmark”.

More broadly, any of the international or national reforms (including those announced in relation to LIBOR and the application of any similar reforms to other “benchmarks” such as the 5-year Mid-Swap Rate), or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks”: (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark”; or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Preferred Securities. Under the Conditions, if the 5-year Mid-Swap Rate does not appear on the relevant Screen Page at the relevant time and no quotations are provided to the Bank for the purposes of the Bank’s determination of a Reset Reference Bank Rate, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.097 per cent. per annum.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to the Preferred Securities.

***Credit ratings may not reflect all risks associated with an investment in the Preferred Securities***

The Preferred Securities have been assigned a Ba2 rating by Moody’s and a BB rating by Fitch. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

Similar ratings assigned to different types of securities do not necessarily mean the same thing and any rating assigned to the Preferred Securities does not address the likelihood that Distributions or any other payments in respect of the Preferred Securities will be made on any particular date or at all. Credit ratings also do not address the marketability or market price of securities.

Any real or anticipated changes in the credit ratings assigned to the Preferred Securities may affect the market value of the Preferred Securities. Such changes may, among other factors, be due to a change in the methodology applied by a rating agency to rating securities with similar structures to the Preferred Securities, as opposed to any revaluation of the Bank's financial strength or other factors such as conditions affecting the financial services industry generally.

In addition, rating agencies other than Moody's and Fitch may assign unsolicited ratings to the Preferred Securities. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable ratings assigned to the Preferred Securities by Moody's and Fitch, which could adversely affect the market value and liquidity of the Preferred Securities.

A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Potential investors should not rely on any rating of the Preferred Securities and should make their investment decision on the basis of considerations such as those outlined above (see "*The Preferred Securities may not be a suitable investment for all investors*").

The Bank does not participate in any decision making of the rating agencies and any revision or withdrawal of any credit rating assigned to the Bank or any securities of the Bank is a third party decision for which the Bank does not assume any responsibility.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (i) the Preferred Securities are lawful investments for it, (ii) the Preferred Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Preferred Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Preferred Securities under any applicable risk-based capital or similar rules.

## PRESENTATION OF FINANCIAL INFORMATION

### ACCOUNTING PRINCIPLES

Under Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19th July, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1st January, 2005 in conformity with International Financial Reporting Standards adopted by the European Union (**EU-IFRS**).

BBVA's consolidated financial statements as at and for each of the years ending 31st December 2018, 31st December, 2017 and 31st December, 2016 (the **Consolidated Financial Statements**), as incorporated by reference in this Prospectus, have been prepared in accordance with EU-IFRS in consideration of Circular 4/2004, which has been replaced by the Bank of Spain's Circular 4/2017 for financial statements as of 1st January, 2018, and any other legislation governing financial reporting applicable to the Group.

### FINANCIAL INFORMATION

The following principles should be noted in reviewing the financial information contained in this Prospectus:

- Unless otherwise stated, any reference to loans refers to both loans and leases.
- All references to any financial information in this Prospectus are to the consolidated financial information of the Group, unless otherwise stated.
- Financial information with respect to subsidiaries may not reflect consolidation adjustments.
- Certain numerical information in this Prospectus may not sum due to rounding. In addition, information regarding period-to-period changes is based on numbers which have not been rounded.

### STABILISATION

In connection with the issue of the Preferred Securities, HSBC Bank plc as stabilisation manager (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preferred Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Preferred Securities and 60 days after the date of the allotment of the Preferred Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

### SPANISH TAX RULES

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments (including debt instruments issued at a discount for a period equal to or less than twelve months) issued under the First Additional Provision of Law 10/2014. According to the Ninth Additional Provision of Law 27/2014 of 27th November, on Corporate Income Tax (**Law 27/2014**), such procedures apply to interest deriving from preference shares to which the First Additional Provision of Law 10/2014 refers.

## *General*

The procedure described in this Prospectus for the provision of information required by Spanish law and regulation is a summary only, and may be updated and/or amended at any time as a result of any change in, or amendment to, the laws or regulations applicable in Spain or any change in the application or binding official interpretation or administration of any such laws or regulations. Neither the Bank nor any of the Managers assume any responsibility therefor.

## DOCUMENTS INCORPORATED BY REFERENCE

Each document incorporated herein by reference is only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Bank or the Group, as the case may be, since the date thereof or that the information contained therein is current as of any time subsequent to its date. Any statement contained in any document incorporated herein by reference shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The following documents, which have been previously published and filed with the CNMV, are incorporated in, and form part of, this Prospectus:

- (a) BBVA's Registration Document drawn up pursuant to Annex I of the Prospectus Regulation, approved by and registered with the CNMV on 22nd May, 2018 (the **Registration Document**) (available at [www.cnmv.es](http://www.cnmv.es) and at <https://accionistaseinversores.bbva.com/wp-content/uploads/2018/05/20180522-Documento-de-Registro.pdf> (in Spanish) and [https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/05/20180522-Documento-de-Registro\\_Eng.pdf](https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/05/20180522-Documento-de-Registro_Eng.pdf) (in English));
- (b) the audited stand-alone financial statements of the Bank as at and for the year ended 31st December, 2018 (available at [www.cnmv.es](http://www.cnmv.es) and at [https://accionistaseinversores.bbva.com/wpcontent/uploads/2019/02/4.Cuentas\\_Anuales\\_Individuales\\_BBVA\\_-2018.pdf](https://accionistaseinversores.bbva.com/wpcontent/uploads/2019/02/4.Cuentas_Anuales_Individuales_BBVA_-2018.pdf) (in Spanish) and [https://shareholdersandinvestors.bbva.com/wpcontent/uploads/2019/02/4.Anuar\\_Report\\_BBVA\\_S.A.\\_2018.pdf](https://shareholdersandinvestors.bbva.com/wpcontent/uploads/2019/02/4.Anuar_Report_BBVA_S.A._2018.pdf) (in English));
- (c) the audited stand-alone financial statements of the Bank as at and for the year ended 31st December, 2017 (available at [www.cnmv.es](http://www.cnmv.es) and at [https://accionistaseinversores.bbva.com/wp-content/uploads/2018/03/Cuentas\\_Individuales\\_Anuales\\_BBVA\\_Ejercicio\\_2017\\_WEB.pdf](https://accionistaseinversores.bbva.com/wp-content/uploads/2018/03/Cuentas_Individuales_Anuales_BBVA_Ejercicio_2017_WEB.pdf) (in Spanish) and [https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/03/BBVA\\_Annual\\_Report\\_2017\\_WEB.pdf](https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/03/BBVA_Annual_Report_2017_WEB.pdf) (in English));
- (d) the audited stand-alone financial statements of the Bank as at and for the year ended 31st December, 2016 (available at [www.cnmv.es](http://www.cnmv.es) and at <https://accionistaseinversores.bbva.com/wp-content/uploads/2017/03/CuentasanualesBBVA2016.pdf> (in Spanish) and [https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/05/2016Annualaccounts\\_tcm927-643414.pdf](https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/05/2016Annualaccounts_tcm927-643414.pdf) (in English));
- (e) (i) the audited consolidated financial statements of the Group as at and for the year ended 31st December, 2018 (the **2018 Consolidated Financial Statements**) on pages 4 to 248 (inclusive) (English version) and on pages 4 to 254 (inclusive) (Spanish version) of the Group's consolidated financial statements, management report and auditors' report for the year 2018 (the **2018 Report**) and (ii) on the page prior to the table of contents of the 2018 Report, the auditors' report on the 2018 Consolidated Financial Statements (available at [https://accionistaseinversores.bbva.com/wp-content/uploads/2019/02/5.Cuentas\\_Anuales\\_Consolidadas\\_e\\_IG\\_Grupo\\_BBVA\\_2018.pdf](https://accionistaseinversores.bbva.com/wp-content/uploads/2019/02/5.Cuentas_Anuales_Consolidadas_e_IG_Grupo_BBVA_2018.pdf) (in Spanish) and [https://shareholdersandinvestors.bbva.com/wp-content/uploads/2019/02/5.Anuar\\_Report\\_BBVA\\_GROUP\\_2018.pdf](https://shareholdersandinvestors.bbva.com/wp-content/uploads/2019/02/5.Anuar_Report_BBVA_GROUP_2018.pdf) (in English)); and



- (f) (i) the audited consolidated financial statements of the Group as at and for the year ended 31st December, 2016 (the **2016 Consolidated Financial Statements**) on pages 3 to 271 (inclusive) (English version) and on pages 4 to 272 (inclusive) (Spanish version) of the Group's consolidated financial statements, management report and auditors' report for the year 2016 (the **2016 Report**) and (ii) on the page prior to the table of contents of the 2016 Report, the auditors' report on the 2016 Consolidated Financial Statements (available at [www.cnmv.es](http://www.cnmv.es) and at <https://accionistaseinversores.bbva.com/wp-content/uploads/2017/03/CuentasAnualesConsolidadasBBVA2016.pdf.pdf%20> (in Spanish) and [https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/05/CuentasAnualesConsolidadasBBVA2016\\_tcm927-643412.pdf](https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/05/CuentasAnualesConsolidadasBBVA2016_tcm927-643412.pdf) (in English)).

The non-incorporated parts of the 2018 Report and the 2016 Report are either not relevant for an investor or are covered elsewhere in the Prospectus.

The English versions of items (a) to (f) above are for information purposes only. In the event of a discrepancy, the original Spanish-language versions prevail.

## CAPITAL ADEQUACY

### Capital Adequacy of the Group

The following table sets forth details of the risk-weighted assets and capital ratios of the Group:

	<b>As of 31st December,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>(in millions of euros except percentages)</i>		
Common equity tier 1 ratio (%)	11.6	11.7	12.2
Tier 1 ratio (%)	13.2	12.9	12.9
Total capital ratio (%)	15.7	15.4	15.1
Total risk-weighted assets	348,254	362,875	388,951

The table below sets forth the distance to Trigger Event of the Group:

	<b>As of 31st December, 2018</b>	<b>As of 31st December, 2017</b>
		<i>(in millions of euros)</i>
Distance to Trigger Event <sup>(1)</sup>	22,463	23,743

(1)The Distance to Trigger Event reflects as of 31st December, 2018 and 31st December, 2017 the amount of common equity tier 1 capital above the Trigger Event level applicable to the Preferred Securities (being a CET1 ratio of less than 5.125 per cent.).

### Capital Adequacy of the Bank

The following table sets forth details of the risk-weighted assets and capital ratios of the Bank:

	<b>As of 31st December,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>(in millions of euros except percentages)</i>		
Common equity tier 1 ratio (%)	17.5	17.7	17.6
Tier 1 ratio (%)	20.0	20.6	20.4
Total capital ratio (%)	22.1	22.5	21.8
Total risk-weighted assets	194,662	197,391	200,727

The table below sets forth the distance to Trigger Event of the Bank:

	<b>As of 31st December, 2018</b>	<b>As of 31st December, 2017</b>
		<i>(in millions of euros)</i>

Distance to Trigger Event<sup>(1)</sup>

23,957

24,001

(1)The Distance to Trigger Event reflects as of 31st December, 2018 and 31st December, 2017 the amount of common equity tier 1 capital above the Trigger Event level applicable to the Preferred Securities (being a CET1 ratio of less than 5.125 per cent.).

## DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

### HISTORY AND DEVELOPMENT OF THE BANK

BBVA's predecessor bank, BBV (Banco Bilbao Vizcaya), was incorporated as a public limited company (a *sociedad anónima* or S.A.) under the Spanish Corporations Law on 1st October, 1988. BBVA was formed following the merger of Argentaria into BBV (Banco Bilbao Vizcaya), which was approved by the shareholders of each entity on 18th December, 1999 and registered on 28th January, 2000. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain) (volume 2,083, Folium 1, Page BI-17.A, first inscription). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and has its main place of business at Calle Azul, 4, 28050, Madrid, Spain, telephone number +34-91-374-6201. BBVA is incorporated for an unlimited term. The Legal Entity Identifier (LEI) of BBVA is K8MS7FD7N5Z2WQ51AZ71.

BBVA's corporate purpose contained in article 3 of its bylaws is to engage in all kinds of activities, operations, acts, contracts and services within the banking business or directly or indirectly related to it, that are permitted or not prohibited by prevailing provisions and any ancillary activities. Its corporate purpose also includes the acquisition, holding, utilisation and divestment of securities, public offerings to buy and sell securities, and any kind of holdings in any company or enterprise.

### CAPITAL EXPENDITURES

BBVA's principal investments are financial investments in its subsidiaries and affiliates. The main capital expenditures from 2016 to the date of this Prospectus were the following:

#### 2018

In 2018, there were no significant capital expenditures.

#### 2017

##### *Acquisition of an additional 9.95 per cent. of Garanti*

On 22nd March, 2017, BBVA acquired 41,790,000,000 shares (in the aggregate) of Garanti (amounting to 9.95 per cent. of the total issued share capital of Garanti) from Doğu Holding A.Ş. and Doğu Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş., under certain agreements entered into on 21st February, 2017, at a purchase price of 7.95 TL per share (3,322 million TL or €859 million in the aggregate).

#### 2016

In 2016 there were no significant capital expenditures.

### CAPITAL DIVESTITURES

BBVA's principal divestitures are financial divestitures in its subsidiaries and affiliates. The main capital divestitures from 2016 to the date of this Prospectus were the following:

#### 2018

##### *Sale of BBVA's stake in BBVA Chile*

On 28th November, 2017, BBVA received a binding offer from The Bank of Nova Scotia group (**Scotiabank**) for the acquisition of BBVA's stake in Banco Bilbao Vizcaya Argentaria Chile, S.A.

**(BBVA Chile)** as well as in other companies of the Group in Chile whose operations are complementary to its banking business in Chile (amongst them, BBVA Seguros de Vida, S.A.). BBVA owned, directly and indirectly, 68.19 per cent. of BBVA Chile's share capital. The offer received did not include BBVA's stake in the automobile financing companies which are part of the Forum group and in other Chilean entities which are engaged in non-banking activities of the Group. On 5th December, 2017, BBVA accepted the offer and entered into a sale and purchase agreement.

On 6th July, 2018, after having received all required authorisations, BBVA completed the sale to Scotiabank of its direct and indirect shareholding stake in BBVA Chile as well as in other companies of the Group in Chile whose operations were complementary to its banking business in Chile. The consideration received in cash by BBVA as a consequence of the referred sale amounted to USD 2,200 million. The transaction resulted in a capital gain net of taxes of €633 million and a positive impact on BBVA Group's CET 1 (fully loaded) of 50 basis points. These impacts have been recorded in BBVA Group's third quarter financial statements for 2018.

### ***Completion of the acquisition by Cerberus of the Spanish Real Estate Business of the Bank***

On 29th November, 2017, BBVA reached an agreement with a subsidiary of Cerberus Capital Management, L.P. (**Cerberus**) for the creation of a "joint venture" Divarian to which the Group transferred part of its real estate business in Spain (the **Spanish Real Estate Business**) by way of contribution, and which majority stake was to be transferred and subsequently acquired by Cerberus.

On 10th October, 2018, after obtaining all the required authorisations, BBVA completed the transfer of the Spanish Real Estate Business to Divarian and the sale of 80 per cent. of the shares of Divarian to an entity managed by Cerberus. However, the transfer of several real estate assets remained subject to the fulfilment of certain conditions.

As of 31st December, 2018, the transaction did not have a significant impact on BBVA Group's attributable profit or CET 1 (fully loaded).

### **2017**

In 2017, there were no significant capital divestitures.

### **2016**

In 2016 there were no significant capital divestitures.

## **BUSINESS OVERVIEW**

BBVA is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management, private banking and wholesale banking. It also has investments in some of Spain's leading companies.

### **Operating Segments**

Set forth below are the Group's current seven operating segments:

- Banking Activity in Spain
- Non-Core Real Estate (until March 2017, this operating segment was named Real Estate Activity in Spain)
- Turkey
- Rest of Eurasia
- Mexico

- South America
- United States

In addition to the operating segments referred to above, the Group has a Corporate Center which includes those items that have not been allocated to an operating segment. It includes the Group's general management functions, including costs from central units that have a strictly corporate function; management of structural exchange rate positions carried out by the Financial Planning unit; specific issues of capital instruments to ensure adequate management of the Group's overall capital position; proprietary portfolios such as holdings in some of Spain's leading companies and their corresponding results; certain tax assets and liabilities; provisions related to commitments with pensioners; and goodwill and other intangibles. As of 31st December, 2018, the 20 per cent. of the shares of Divarian held by BBVA is included in this unit.

The calculation for constant currency amounts and percentages has been performed by applying current period exchange rates to the prior periods as stated and published in the management report included in the Registration Document.

The breakdown of the Group's total assets by operating segments as of 31st December, 2018, 2017 and 2016 is as follows:

Total Assets by Operating Segment	As of 31st December,		
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
	(in millions of euros)		
Banking Activity in Spain	335,294	319,417	335,847
Non-Core Real Estate	4,163	9,714	13,713
The United States	82,057	75,775	88,902
Mexico	96,455	94,061	93,318
Turkey	66,250	78,694	84,866
South America	52,385	74,636	77,918
Rest of Eurasia	18,000	17,265	19,106
<b>Subtotal Assets by Operating Segment</b>	<b>654,605</b>	<b>669,562</b>	<b>713,670</b>
Corporate Center and other adjustments	22,084	20,497	18,186
<b>Total Assets BBVA Group</b>	<b>676,689</b>	<b>690,059</b>	<b>731,856</b>

(1) The figures corresponding to 31st December, 2017 and 2016 have been restated due to changes in the structure of BBVA's internal organisation in a manner that caused the composition of the reportable segments to change. These changes were not significant.

The following table sets forth information relating to the profit (loss) attributable to the parent company by each of BBVA's operating segments and Corporate Center for the years ended 31st December, 2018, 2017 and 2016.

	Profit/(Loss) Attributable to Parent Company			% of Profit/(Loss) Attributable to Parent Company		
	For the Year Ended 31st December,					
	2018	2017	2016	2018	2017	2016
	(in millions of euros)			(in percentage)		
Banking Activity in Spain	1,522	1,374	905	26	26	21
Non-Core Real Estate	(78)	(490)	(595)	(1)	(9)	(14)
The United States	735	486	459	13	10	11
Mexico	2,384	2,187	1,980	41	40	46
Turkey	569	826	599	10	15	14
South America	591	861	771	10	16	18
Rest of Eurasia	93	125	151	2	2	4
<b>Subtotal operating segments<sup>(1)</sup></b>	<b>5,818</b>	<b>5,368</b>	<b>4,269</b>	<b>100</b>	<b>100</b>	<b>100</b>

Corporate Center	(494)	(1,848)	(794)
<b>Profit attributable to parent company</b>	<b>5,324</b>	<b>3,519</b>	<b>3,475</b>

(1) The figures corresponding to 31st December, 2017 and 2016 have been restated due to changes in the structure of BBVA's internal organisation in a manner that caused the composition of the reportable segments to change. These changes were not significant.

The following table sets forth information relating to the income of each operating segment for the years ended 31st December, 2018, 2017 and 2016 and reconciles the income statement of the various operating segments to the consolidated income statement of the Group:

	Operating Segments								Total
	Banking Activity in Spain	Non-Core Real Estate	The United States	Mexico	Turkey	South America	Rest of Eurasia	Corporate Center	
<b>2018</b>									
Net interest income	3,672	32	2,276	5,568	3,135	3,009	175	(276)	17,591
Gross income	5,943	38	2,989	7,193	3,901	3,701	415	(432)	23,747
Net margin before provisions <sup>(1)</sup>	2,680	(28)	1,127	4,825	2,658	2,011	124	(1,352)	12,045
Operating profit/(loss) before tax	2,017	(129)	919	3,294	1,448	1,307	144	(1,420)	7,580
<b>Profit attributable to parent company</b>	<b>1,522</b>	<b>(78)</b>	<b>735</b>	<b>2,384</b>	<b>569</b>	<b>591</b>	<b>93</b>	<b>(494)</b>	<b>5,324</b>
<b>2017</b>									
Net interest income	3,738	71	2,119	5,476	3,331	3,200	180	(357)	17,758
Gross income	6,180	(17)	2,876	7,122	4,115	4,451	468	73	25,270
Net margin before provisions <sup>(1)</sup>	2,790	(116)	1,025	4,671	2,612	2,444	160	(815)	12,770
Operating profit/(loss) before tax	1,854	(656)	748	2,984	2,147	1,691	177	(2,013)	6,931
<b>Profit attributable to parent company</b>	<b>1,374</b>	<b>(490)</b>	<b>486</b>	<b>2,187</b>	<b>826</b>	<b>861</b>	<b>125</b>	<b>(1,848)</b>	<b>3,519</b>
<b>2016</b>									
Net interest income	3,877	60	1,953	5,126	3,404	2,930	166	(455)	17,059
Gross income	6,416	(6)	2,706	6,766	4,257	4,054	491	(31)	24,653
Net margin before provisions <sup>(1)</sup>	2,837	(130)	863	4,371	2,519	2,160	149	(907)	11,862
Operating profit/(loss) before tax	1,268	(743)	612	2,678	1,906	1,552	203	(1,084)	6,392
<b>Profit attributable to parent company<sup>(2)</sup></b>	<b>905</b>	<b>(595)</b>	<b>459</b>	<b>1,980</b>	<b>599</b>	<b>771</b>	<b>151</b>	<b>(794)</b>	<b>3,475</b>

(1) "Net margin before provisions" is calculated as "Gross income" less "Administration costs" and "Depreciation and amortisation".

(2) The figures for the years ended 31st December, 2017 and 2016 have been restated due to changes in the structure of BBVA's internal organisation in a manner that caused the composition of the reportable segments to change. These changes were not significant.

The following tables set forth information relating to the balance sheet of the main operating segments as of 31st December, 2018, 2017 and 2016:

As of 31st December, 2018						
Banking Activity in Spain	The United States	Mexico	Turkey	South America	Rest of Eurasia	

	(In Millions of Euros)					
<b>Total Assets</b>	<b>335,294</b>	<b>82,057</b>	<b>96,455</b>	<b>66,250</b>	<b>52,385</b>	<b>18,000</b>
Cash, cash balances at central banks and other demand deposits	27,841	4,835	8,274	7,853	8,987	273
Financial assets designated at fair value	100,094	10,481	26,022	5,506	5,634	504
Financial assets at amortized cost	193,936	63,539	57,709	50,315	36,649	16,930
Loans and advances to customers	169,856	60,808	51,101	41,478	34,469	15,731
<i>Of which:</i>						
Residential mortgages	74,639	10,990	9,197	3,530	6,629	1,821
Consumer finance	11,748	9,187	12,145	9,145	9,431	420
Loans	9,665	8,467	7,347	5,265	7,374	410
Credit cards	2,083	720	4,798	3,880	2,058	10
Loans to enterprises	45,367	32,862	20,493	27,657	16,975	12,818
Loans to public sector	15,327	5,400	5,726	95	1,078	414
<b>Total Liabilities</b>	<b>332,656</b>	<b>78,812</b>	<b>92,998</b>	<b>57,966</b>	<b>45,933</b>	<b>17,696</b>
Financial liabilities held for trading and designated at fair value through profit or loss	66,255	234	18,028	1,852	1,357	42
Customer deposits at amortized cost	180,891	63,891	50,530	39,905	35,842	4,876
<i>Of which:</i>						
Current and savings accounts	142,199	41,206	38,147	12,530	23,025	3,544
Time deposits	38,263	16,857	11,593	27,367	12,817	1,333
<b>Total Equity</b>	<b>2,638</b>	<b>3,245</b>	<b>3,457</b>	<b>8,284</b>	<b>6,452</b>	<b>304</b>

As of 31st December, 2017

	Banking Activity in Spain	The United States	Mexico	Turkey	South America	Rest of Eurasia
	(In Millions of Euros)					
<b>Total Assets</b>	<b>319,417</b>	<b>75,775</b>	<b>94,061</b>	<b>78,694</b>	<b>74,636</b>	<b>17,265</b>
Cash, cash balances at central banks and other demand deposits	13,463	7,138	8,833	4,036	9,039	877
Financial assets designated at fair value	79,501	11,068	28,627	6,419	11,627	991
Financial assets at amortized cost	221,391	54,705	47,691	65,083	51,207	15,009
Loans and advances to customers	183,172	53,718	45,768	51,378	48,272	14,864
<i>Of which:</i>						
Residential mortgages	77,419	11,048	8,081	5,147	11,681	2,118
Consumer finance	9,804	6,841	10,820	11,185	10,883	305
Loans	7,845	6,312	6,422	6,760	8,168	282
Credit cards	1,959	529	4,397	4,425	2,715	23
Loans to enterprises	46,561	28,841	17,838	34,371	23,567	11,599
Loans to public sector	16,131	5,133	5,262	148	1,114	514
<b>Total Liabilities</b>	<b>309,731</b>	<b>72,532</b>	<b>90,667</b>	<b>70,253</b>	<b>69,885</b>	<b>16,330</b>
Financial liabilities held for trading and designated at fair value through profit or loss	36,817	139	9,405	648	2,823	45



Customer deposits at amortized cost	177,763	60,806	49,964	44,691	45,666	6,700
<i>Of which:</i>						
Current and savings accounts	126,737	38,486	34,855	14,240	26,200	4,278
Time deposits	48,085	16,767	10,237	30,300	20,099	2,422
<b>Total Equity</b>	<b>9,686</b>	<b>3,243</b>	<b>3,394</b>	<b>8,441</b>	<b>4,751</b>	<b>935</b>

As of December 31, 2016

	Banking Activity in Spain	The United States	Mexico	Turkey	South America	Rest of Eurasia
(In Millions of Euros)						
<b>Total Assets</b>	<b>335,847</b>	<b>88,902</b>	<b>93,318</b>	<b>84,866</b>	<b>77,918</b>	<b>19,106</b>
<b>Loans and advances to customers</b>	<b>187,201</b>	<b>62,000</b>	<b>47,938</b>	<b>57,941</b>	<b>50,333</b>	<b>15,835</b>
<i>Of which:</i>						
Residential mortgages	81,659	12,893	8,410	5,801	11,441	2,432
Consumer finance	7,141	7,413	11,286	15,819	10,527	231
<i>Loans</i>	5,374	6,838	6,630	10,734	7,781	217
<i>Credit cards</i>	1,767	575	4,656	5,085	2,745	15
Loans to enterprises	43,472	33,084	18,684	33,836	21,495	12,340
Loans to public sector	18,268	4,594	3,862	-	685	57
<b>Total Liabilities</b>	<b>325,230</b>	<b>84,719</b>	<b>89,244</b>	<b>75,798</b>	<b>73,425</b>	<b>17,705</b>
<b>Customer deposits</b>	<b>180,544</b>	<b>65,760</b>	<b>50,571</b>	<b>47,244</b>	<b>47,684</b>	<b>9,396</b>
<i>Of which:</i>						
Current and savings accounts	98,989	49,430	31,112	12,237	23,369	4,442
Time deposits	70,696	13,765	7,048	35,231	20,509	4,773
Other customer funds	5,124	-	5,324	21	4,456	107
<b>Total Equity</b>	<b>10,617</b>	<b>4,183</b>	<b>4,074</b>	<b>9,068</b>	<b>4,493</b>	<b>1,401</b>

### ***Banking Activity in Spain***

The Banking Activity in Spain operating segment includes all of BBVA's banking and non-banking businesses in Spain, other than those included in the Corporate Center and Non-Core Real Estate. The main business units included in this operating segment are:

- ***Spanish Retail Network***: including individual customers, private banking, small companies and businesses in the domestic market;
- ***Corporate and Business Banking (CBB)***: which manages small and medium-sized enterprises (SMEs), companies and corporations, public institutions and developer segments;
- ***Corporate and Investment Banking (C&IB)***: responsible for business with large corporations and multinational groups and the trading floor and distribution business in Spain; and
- ***Other units***: which include the insurance business unit in Spain (BBVA Seguros), and the Asset Management unit, which manages Spanish mutual funds and pension funds. It also includes the provision of new loans to developers or loans that are no longer in difficulties as well as the portfolios, funding and structural interest rate positions of the euro balance sheet.

Financial assets designated at fair value of this operating segment as of 31st December, 2018 amounted to €100,094 million, a 25.9 per cent. increase compared with the €79,501 million recorded as of 31st December, 2017, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018 (see Note 2.4 to the 2018 Consolidated Financial Statements for further information

regarding the classification and measurement of financial instruments) as well as the increase of derivatives and debt securities under the financial assets held for trading portfolio.

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €193,936 million, a 12.4 per cent. decrease compared with the €221,391 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €169,856 million, a 7.3 per cent. decrease from the €183,172 million recorded as of 31st December, 2017, mainly as a result of the evolution of the mortgage portfolio, and to a lesser extent, the decrease in the other commercial and public sector portfolios.

Financial liabilities held for trading and designated at fair value through profit or loss of this operating segment as of 31st December, 2018 amounted to €66,255 million, an 80.0 per cent. increase compared with the €36,817 million recorded as of 31st December, 2017, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018. See Note 2.4 to the 2018 Consolidated Financial Statements for further information regarding the classification and measurement of financial instruments.

Customer deposits within financial liabilities at amortized cost of this operating segment as of 31st December, 2018 amounted to €180,891 million, a 1.8 per cent. increase compared with the €177,763 million recorded as of 31st December, 2017, which was as a result of the rise in demand deposits, which offset the decline in time deposits.

Mutual funds of this operating segment as of 31st December, 2018 amounted to €39,249 million, a 3.3 per cent. increase from the €37,992 million recorded as of 31st December, 2017, mainly due to new net contributions.

Pension funds of this operating segment as of 31st December, 2018 amounted to €23,274 million, a 3.1 per cent. decrease compared with the €24,022 million recorded as of 31st December, 2017, mainly due to the unfavourable evolution of the markets.

This operating segment's non-performing loan ratio decreased to 4.6 per cent. as of 31st December, 2018, from 5.5 per cent. as of 31st December, 2017. This operating segment's non-performing loan coverage ratio increased to 57 per cent. as of 31st December, 2018, from 50 per cent. as of 31st December, 2017.

### ***Non-Core Real Estate***

This operating segment was set up with the aim of providing specialised and structured management of the real estate assets accumulated by the Group as a result of the economic crisis in Spain. It primarily includes lending to real estate developers and foreclosed real estate assets arising from residential mortgages as well as loans to developers (except for those new loans to developers that are included in the Banking Activity in Spain segment). In November 2017, BBVA reached an agreement with a subsidiary of Cerberus for the creation of Divarian, a joint venture to which the Spanish Real Estate Business was to be transferred. At a later stage, 80 per cent. of Divarian was to be sold to an entity managed by Cerberus and this sale (together with the transfer of the Spanish Real Estate Business to Cerberus) was completed on 10th October, 2018. As of 31st December, 2018, the 20 per cent. of the share in Divarian held by BBVA are recorded in the Corporate Center. See “—*History and Development of the Bank—Capital Divestitures—2018—Completion of the acquisition by Cerberus of the Spanish Real Estate Business*”.

Additionally, in December 2018, the BBVA Group reached an agreement with Blackstone for the sale of its 25.24 per cent. stake in the Spanish real estate company Testa Residencial SOCIMI, S.A. for €478 million.

Loans and advances to customers of this operating segment have significantly declined over recent years. As of 31st December, 2018, loans and advances to customers amounted to €582 million, a 83.5

per cent. decrease compared with the €3,521 million recorded as of 31st December, 2017, principally due to portfolio sales.

The non-performing loan ratio of this segment was 71.1 per cent. as of 31st December, 2018. The coverage ratio of non-performing loan of this segment was 58 per cent. of the total amount of real-estate assets in this operating segment, as of 31st December, 2018.

### ***The United States***

This operating segment encompasses the Group's business in the United States. BBVA Compass accounted for 91.9 per cent. of the operating segment's balance sheet as of 31st December, 2018. Given its size in this segment, most of the comments below refer to BBVA Compass. This operating segment also includes the assets and liabilities of the BBVA branch in New York, which specialises in transactions with large corporations.

The U.S. dollar appreciated 4.7 per cent. against the euro as of 31st December, 2018 compared with 31st December, 2017 positively affecting the business activity of the United States operating segment as of 31st December, 2018 expressed in euro.

Financial assets designated at fair value of this operating segment as of 31st December, 2018 amounted to €10,481 million, a 5.3 per cent. decrease from the €11,068 million recorded as of 31st December, 2017, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018 (see Note 2.4 to the 2018 Consolidated Financial Statements for further information regarding the classification and measurement of financial instruments).

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €63,539, a 16.1 per cent. increase compared with the €54,705 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €60,808 million, a 13.2 per cent. increase compared with the €53,718 million recorded as of 31st December, 2017, mainly due to the aforementioned appreciation of the U.S. dollar against the euro and the increase in other commercial portfolio, and to a lesser extent, the increase in consumer and corporates portfolios.

Customer deposits within financial liabilities at amortized cost of this operating segment as of 31st December, 2018 amounted to €63,891 million, a 5.1 per cent. increase compared with the €60,806 million recorded as of 31st December, 2018, mainly due to the increase in demand deposits.

The non-performing loan ratio of this operating segment as of 31st December, 2018 was 1.3 per cent., compared with 1.2 per cent. as of 31st December, 2017. This operating segment's non-performing loan coverage ratio decreased to 85 per cent. as of 31st December, 2018, from 104 per cent. as of 31st December, 2017 due to the increase in non-performing loans and the release during the year 2018 of provisions associated with retail portfolios affected by hurricanes in 2017.

### ***Mexico***

The Mexico operating segment comprises the banking and insurance businesses conducted in Mexico by the BBVA Bancomer financial group.

The Mexican peso appreciated 5.2 per cent. against the euro as of 31st December, 2018 compared with 31st December, 2017, positively affecting the business activity of the Mexico operating segment as of 31st December, 2018 expressed in euro.

Financial assets designated at fair value of this operating segment as of 31st December, 2018 amounted to €26,022 million, a 9.1 per cent. decrease from the €28,627 million recorded as of 31st December, 2017, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018

(see Note 2.4 to the 2018 Consolidated Financial Statements for further information regarding the classification and measurement of financial instruments).

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €57,709, a 21.0 per cent. increase compared with the €47,691 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €51,101 million, a 11.7 per cent. increase compared with the €45,768 million recorded as of 31st December, 2017, primarily due to the appreciation of the Mexican peso against the euro and the increase in the other commercial portfolio, and to a lesser extent, the rise in the corporate and consumer portfolios.

Financial liabilities held for trading and designated at fair value through profit or loss of this operating segment as of 31st December, 2018 amounted to €18,028 million, a 91.7 per cent. increase compared with the €9,405 million recorded as of 31st December, 2017, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018 (see Note 2.4 to the 2018 Consolidated Financial Statements for further information regarding the classification and measurement of financial instruments).

Customer deposits of this operating segment as of 31st December, 2018 amounted to €50,530 million, a 1.1 per cent. increase compared with the €49,964 million recorded as of 31st December, 2017.

Mutual funds of this operating segment as of 31st December, 2018 amounted to €17,733 million, a 7.9 per cent. increase compared with the €16,430 million recorded as of 31st December, 2017, primarily due to the appreciation of the Mexican peso against the euro.

This operating segment's non-performing loan ratio was 2.1 per cent. as of 31st December, 2018 and 2.3% as of 31st December, 2017. This operating segment's non-performing loan coverage ratio increased to 154% as of 31st December, 2018, from 123% as of 31st December, 2017.

### ***Turkey***

This operating segment comprises the banking and insurance businesses conducted by Garanti and its consolidated subsidiaries.

The Turkish lira depreciated 25.0 per cent. against the euro as of 31st December, 2018 compared to 31st December, 2017, negatively affecting the business activity of the Turkey operating segment as of 31st December, 2018 expressed in euro.

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €50,315, a 22.7 per cent. decrease compared with the €65,083 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €41,478 million, a 19.3 per cent. decrease compared with the €51,378 million recorded as of 31st December, 2017 principally due to the depreciation of the Turkish lira.

Financial liabilities held for trading and designated at fair value through profit or loss of this operating segment as of 31st December, 2018 amounted to €1,852 million, a 185.9 per cent. increase compared with the €648 million recorded as of 31st December, 2018, mainly as a result of the initial implementation of IFRS 9 as of 1st January, 2018 (see Note 2.4 to the 2018 Consolidated Financial Statements for further information regarding the classification and measurement of financial instruments).

Customer deposits of this operating segment as of 31st December, 2018 amounted to €39,905 million, a 10.7 per cent. decrease compared with the €44,691 million recorded as of 31st December, 2017, mainly as a result of the depreciation of the Turkish lira.

Mutual funds in this operating segment as of 31st December, 2018 amounted to €669 million, a 47.1 per cent. decrease compared with the €1,265 million as of 31st December, 2017, mainly as a result of the depreciation of the Turkish lira against the euro.

Pension funds in this operating segment as of 31st December, 2018 amounted to €2,225 million, a 15.6 per cent. decrease compared with the €2,637 million recorded as of 31st December, 2017, due to the negative exchange rate of 25 per cent. However, in local currency, pension funds increased by 12.4 per cent., mainly as a result of the introduction of a mandatory pension plan by the Turkish government.

The non-performing loan ratio of this operating segment as of 31st December, 2018 was 5.3 per cent. compared with 3.9 per cent. as of 31st December, 2017 mainly as a result of increased impairments of wholesale loans as a result of deteriorating macroeconomic conditions. This operating segment's non-performing loan coverage ratio decreased to 81 per cent. as of 31st December, 2018, from 85 per cent. as of 31st December, 2017.

### ***South America***

The South America operating segment includes the Group's banking and insurance businesses in the region.

The business units included in the South America operating segment are:

- Retail and Corporate Banking: includes banks in Argentina, Colombia, Paraguay, Peru, Uruguay and Venezuela.
- Insurance: includes insurance businesses in Argentina, Colombia and Venezuela.

In November 2017, BBVA reached an agreement for the sale of the entirety of BBVA's 68.2 per cent. stake in BBVA Chile. For additional information, see "*History and Development of the Company—Capital Divestitures—Sale of BBVA's stake in BBVA Chile*". On July 6, 2018, BBVA completed the sale to Scotiabank of its direct and indirect shareholding stake in BBVA Chile. BBVA Group also has an automobile financing business in Chile, mainly carried out by the company Forum Servicios Financieros, S.A. ("**Forum**"). Despite Forum being an attractive business for BBVA, BBVA has decided to initiate a strategic review of alternatives for its automobile financing business in this country.

As of 31st December, 2018, the currencies of the main countries in which BBVA operates in South America (i.e. Argentine peso, Chilean peso and Colombian peso) depreciated against the euro in year-on-year terms, negatively affecting the business activity of the South America operating segment expressed in euro as of 31st December, 2018.

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €36,649 million, a 28.4 per cent. decrease compared with the €51,207 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €34,469 million, a 28.6 per cent. decrease compared with the €48,272 million recorded as of 31st December, 2017, mainly as a result of the sale of BBVA Chile and, to a lesser extent, the impact of the depreciation of the main currencies in which BBVA operates in the region, in particular the Argentine peso. Excluding the sale of BBVA Chile and the impact of the evolution of the exchange rates, there was an increase in loans and advances to customers, mainly as a result of an increase in the business portfolio and, to a lesser extent, due to an increase in consumer loans and residential mortgages.

Customer deposits of this operating segment as of 31st December, 2018 amounted to €35,842 million, a 21.5 per cent. decrease, compared with the €45,666 million recorded as of 31st December, 2017 mainly as a result of the sale of BBVA Chile and, to a lesser extent, the impact of the depreciation of

the main currencies in which BBVA operates in the region, particularly the Argentine peso. Excluding the sale of BBVA Chile and the impact of the evolution of the exchange rates, there was a positive change in customer deposits, mainly as a result of an increase demand deposits and, to a lesser extent, due to an increase in time deposits.

Mutual funds in this operating segment as of 31st December, 2018 amounted to €3,741 million, a 28.7 per cent. decrease compared with the €5,248 million as of 31st December, 2017, mainly due to the sale of BBVA Chile.

Pension funds in this operating segment as of 31st December, 2018 amounted to €7,921 million, a 14.0 per cent. increase compared with the €6,949 recorded as of 31st December, 2017.

The non-performing loan ratio of this operating segment as of 31st December, 2018 increased to 4.3 per cent. compared with 3.4 per cent. as of 31st December, 2017, as a result of the change in the consolidating countries of this operating segment due to the sale of BBVA Chile, which had better risk indicators than the rest of the consolidating countries. This operating segment's non-performing loan coverage ratio increased to 97 per cent. as of 31st December, 2018, from 89 per cent. as of 31st December, 2017.

### ***Rest of Eurasia***

This operating segment includes the retail and wholesale banking businesses carried out by the Group in Europe (primarily Portugal) and Asia, excluding Spain and Turkey.

Financial assets at amortized cost of this operating segment as of 31st December, 2018 amounted to €16,930 million, a 12.8 per cent. increase compared with the €15,009 recorded as of 31st December, 2017. Within this line item, loans and advances to customers of this operating segment as of 31st December, 2018 amounted to €15,731 million, a 5.8 per cent. increase compared with the €14,864 million recorded as of 31st December, 2017, mainly as a result of an increase in enterprise loans.

Customer deposits of this operating segment as of 31st December, 2018 amounted to €4,876 million, a 27.2 per cent. decrease compared with the €6,700 million recorded as of 31st December, 2017, mainly as a result of the decrease in time deposits.

Pension funds in this operating segment as of 31st December, 2018 amounted to €388 million, a 3.2 per cent. increase compared with the €376 recorded as of 31st December, 2017.

The non-performing loan ratio of this operating segment as of 31st December, 2018 was 1.7 per cent. compared with 2.4 per cent. as of 31st December, 2017. This operating segment's non-performing loan coverage ratio increased to 83 per cent. as of 31st December, 2018, from 74 per cent. as of 31st December, 2017.

### **Organisational Structure**

As of 31st December, 2018, the Group was composed of 297 consolidated entities and 66 entities accounted for using the equity method.

The companies are principally domiciled in the following countries: Argentina, Belgium, Bolivia, Brazil, Chile, Colombia, France, Germany, Ireland, Italy, Mexico, Netherlands, Peru, Poland, Spain, Switzerland, Turkey, United Kingdom, United States of America, Uruguay and Venezuela. In addition, BBVA has an active presence in Asia.

Below is a simplified organisational chart of BBVA's most significant subsidiaries as of 31st December, 2018.

Subsidiary	Country of Incorporation	Activity	BBVA Voting Power	BBVA Ownership	Total Assets <sup>(1)</sup>
			(in percentages)		(in millions of euros)
BBVA BANCOMER	Mexico	Bank	100.00	100.00	85,624
GARANTI	Turkey	Bank	49.85	49.85	57,999
COMPASS BANK	United States	Bank	100.00	100.00	68,737
BANCO CONTINENTAL, S.A.	Peru	Bank	92.24	46.12	18,923
BBVA SEGUROS, S.A., DE SEGUROS Y REASEGUROS	Spain	Insurance	99.96	99.96	17,343
BBVA COLOMBIA, S.A.	Colombia	Bank	95.46	95.46	16,309
BBVA BANCO FRANCES, S.A.	Argentina	Bank	66.55	66.55	8,161
GARANTIBANK INTERNATIONAL NV	Netherlands	Bank	100.00	49.85	4,141
PENSIONES BBVA BANCOMER, S.A. DE C.V., GRUPO FINANCIERO BBVA BANCOMER	Mexico	Insurance	100.00	100.00	4,484
SEGUROS BBVA BANCOMER, S.A. DE C.V., GRUPO FINANCIERO BBVA BANCOMER	Mexico	Insurance	100.00	100.00	4,013

<sup>(1)</sup> Information for non-EU subsidiaries has been calculated using the prevailing exchange rates on 31st December, 2018.

## Selected Financial Data

The historical financial information set forth below has been selected from, and should be read together with, the Consolidated Financial Statements, which are incorporated by reference herein.

### Consolidated statement of income data

	As at 31st December,		
	2018	2017	2016
	<i>(in millions of euros)</i>		
Net interest income .....	17,591	17,758	17,059
Profit .....	6,151	4,762	4,693
Profit attributable to parent company.....	5,324	3,519	3,475

### Consolidated balance sheet data

	As at 31st December,		
	2018	2017	2016
	<i>(in millions of euros)</i>		
Total assets.....	676,689	690,059	731,856
Financial assets at amortized cost.....	419,660	445,275	465,977
Customers' deposits at amortized cost.....	375,970	376,379	401,465
Debt certificates .....	63,970	63,915	76,375
Non-controlling interests .....	5,764	6,979	8,064
Total equity .....	52,874	53,323	55,428

## DIRECTORS AND SENIOR MANAGEMENT

BBVA is managed by a Board of Directors which, in accordance with its current by-laws (*Estatutos*), must consist of no less than 5 and no more than 15 members. All members of the Board of Directors are elected to serve three-year terms. BBVA's Board of Directors Regulations state that the Board of Directors must try to ensure that there is an ample majority of non-executive directors over the number of executive directors on the Board of Directors.

BBVA's corporate governance system is based on the distribution of functions between the Board of Directors, the Executive Committee and other specialised Board Committees, namely: the Audit and Compliance Committee; the Appointments Committee; the Remuneration Committee; the Risk Committee; and the Technology and Cybersecurity Committee. BBVA's Board of Directors is assisted in fulfilling its responsibilities by the Executive Committee (*Comisión Delegada Permanente*) of the Board of Directors. The Executive Committee will be apprised of such business of BBVA as the Board of Directors resolves to confer on it, in accordance with prevailing legislation, the Company Bylaws or the Board of Directors' Regulations.

### Board of Directors

The Board of Directors of BBVA currently comprises 15 members.

The business address of the Directors of BBVA is Calle Azul, 4, 28050 Madrid.

BBVA may, from time to time, enter into transactions in the ordinary course of its business, and on an arm's-length basis, with the Directors.

BBVA's Board of Directors Regulations include rules which are designed to prevent situations where a potential conflict of interest may arise. These Regulations provide, among other matters, that Directors with a potential conflict of interest may not participate in meetings at which those situations are being considered. Accordingly, there are no potential conflicts of interest between the private interests or other duties of the Directors and their duties to BBVA.

The following table sets forth the names of the members of the Board of Directors as of the date of this Prospectus, their date of appointment and re-election, if applicable, their current positions and their present principal outside occupation and employment history.

Name	Birth Year	Current Position	Date Nominated	Date Re-elected	Present Principal Outside Occupation and Employment History <sup>(*)</sup>
Carlos Torres Vila <sup>(1)(6)</sup>	1966	Group Executive Chairman	4th May, 2015	11th March, 2016	Chairman of the Board of Directors and Group Executive Chairman of BBVA since December 2018. Chairman of the Technology and Cybersecurity Committee. Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. and BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. Was Chief Executive Officer of BBVA since May 2015, holding such position until his appointment as Chairman. He started at BBVA in September 2008 holding senior management



<b>Name</b>	<b>Birth Year</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Employment History<sup>(*)</sup></b>
Onur Genç	1974	Chief Executive Officer	20 <sup>th</sup> December 2018	n/a	posts such as Head of Digital Banking from March 2014 to May 2015 and BBVA Strategy & Corporate Development Director from January 2009 to March 2014. Chief Executive Officer of BBVA and member of the Executive Committee since December 2018. Was Chairman and CEO of BBVA Compass and BBVA's Country Manager in the USA from 2017 to December 2018. Before that, he was Deputy CEO at Garanti Bank between 2015 and 2017 and Executive Vice President between 2012 and 2015.
Tomás Alfaro Drake <sup>(4)(6)</sup>	1951	External Director	18th March, 2006	17th March, 2017	Director of Internal Development and Professor in the Finance department of Universidad Francisco de Vitoria.
José Miguel Andrés Torrecillas <sup>(2)(3)(5)(7)</sup>	1955	Independent Director	13th March, 2015	16th March, 2018	Chairman of the Audit and Compliance Committee and of the Appointments Committee. Chairman of Ernst & Young Spain from 2004 to 2014, where he was a partner since 1987 and also held a series of senior offices, including Director of the Banking Group from 1989 to 2004 and Managing Director of the Audit and Advisory practices at Ernst & Young Italy and Portugal from 2008 to 2013.
Jaime Félix Caruana Lacorte <sup>(1)(5)(6)</sup>	1952	Independent Director	16th March, 2018	Not applicable	General Director of the Bank of International Settlements (BIS) between 2009 and 2017. Between 2006 and 2009 he was Head of the Monetary, Capital Markets Department and Financial Counselor and General Manager at the International Monetary Fund (IMF), between 2003 and 2006 he was Chair of the Basel's Banking Supervision Committee, between 2000 and 2006 he was Governor of the Bank of Spain, and between 1999 and 2000 he was General Manager of Banking Supervision at the Bank of Spain.
Belén Garijo	1960	Independent	16th March,	16th	Chair of the Remuneration

<b>Name</b>	<b>Birth Year</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Employment History<sup>(*)</sup></b>
López <sup>(2)(3)(4)</sup>		Director	2012	March, 2018	Committee. Member of the Executive Board of Merck Group and CEO of Merck Healthcare, member of the Board of Directors of L'Oréal and Chair of the International Executive Committee of PhRMA, ISEC (Pharmaceutical Research and Manufacturers of America).
José Manuel González-Páramo Martínez-Murillo	1958	Executive Director	29th May, 2013	17th March, 2017	Executive Director of BBVA since May 2013. Member of the European Central Bank (ECB) Governing Council and Executive Committee from 2004 to 2012. Chairman of European DataWarehouse GmbH. Head of BBVA's Global Economics, Regulation and Public Affairs Area.
Sunir Kumar Kapoor <sup>(6)</sup>	1963	Independent Director	11th March, 2016	Not applicable	President and CEO of UBmatrix Inc from 2005 to 2011. Executive Vice President and CMO of Cassatt Corporation from 2004 to 2005. Oracle Corporation, Vice President Collaboration Suite from 2002 to 2004. Founder and CEO of Tsola Inc from 1999 to 2001. President and CEO of E-Stamp Corporation from 1996 to 1999. Vice President of Strategy, Marketing and Planning of Oracle Corporation from 1994 to 1996. Currently, he is an independent consultant to various leading companies in the technology sector, such as cloud infrastructures or data analysis.
Carlos Loring Martínez de Irujo <sup>(1)(4)(5)</sup>	1947	External Director	28th February, 2004	17th March, 2017	Partner of J&A Garrigues from 1977 to 2004, where he has also held a series of senior offices, including Director of M&A Department, Director of Banking and Capital Markets Department and member of its Management Committee.
Lourdes Máiz Carro <sup>(2)(3)(4)</sup>	1959	Independent Director	14th March, 2014	17th March, 2017	Secretary of the Board of Directors and Director of Legal Services at Iberia, Líneas Aéreas de España from 2001 until 2016. Joined the Spanish State Counsel Corps (Cuerpo de Abogados del Estado) and from 1992 until 1993 she was Deputy to the Director in the

<b>Name</b>	<b>Birth Year</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Employment History<sup>(*)</sup></b>
José Maldonado Ramos <sup>(1)(3)</sup>	1952	External Director	28th January, 2000	16th March, 2018	Ministry of Public Administration. From 1993 to 2001 held various senior positions in the Public Administration. Appointed Director and General Secretary of BBVA in January 2000. Took early retirement as Bank executive in December 2009.
Ana Cristina Peralta Moreno <sup>(2)(4)</sup>	1961	Independent Director	16th March, 2018	Not applicable	General Director of Risks and Member of the Management Committee of Banco Pastor, between 2008 and 2011. Before that, she held several positions at Bankinter, including Chief Risk Officer and Member of the Management Committee between 2004 and 2008. She has also held the position of independent director in Deutsche Bank SAE (2014-2018) and Banco Etcheverría (2013-2014).
Juan Pi Llorens <sup>(2)(5)(6)</sup>	1950	Independent Director	27th July, 2011	16th March, 2018	Chairman of the Risk Committee. Had a professional career at IBM holding various senior posts at a national and international level including Vice President for Sales at IBM Europe, Vice President of Technology & Systems Group at IBM Europe and Vice President of the Finance Services Sector at GMU (Growth Markets Units) in China. He was executive President of IBM Spain.
Susana Rodríguez Vidarte <sup>(1)(3)(5)</sup>	1955	External Director	28th May, 2002	17th March, 2017	Professor of Strategy at the Faculty of Economics and Business Sciences at Universidad de Deusto. Doctor in Economic and Business Sciences from Universidad de Deusto.
Jan Paul Marie Francis Verplancke <sup>(6)</sup>	1963	Independent Director	16th March, 2018	Not applicable	Director, Chief Information Officer, Group Head of Technology and Banking Operations, of Standard Chartered Bank, between 2004 and 2015. Before that, he held several positions in multinational companies, such

<b>Name</b>	<b>Birth Year</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Employment History<sup>(*)</sup></b>
					as Vice President of Technology and Chief Information Officer, in the EMEA region of Dell (1999-2004) and Vice President of Information of the Youth Category (USA) of Levi Strauss (1998-1999).

(\*) Where no date is provided, the position is currently held.

- (1) Member of the Executive Committee.
- (2) Member of the Audit and Compliance Committee.
- (3) Member of the Appointments Committee.
- (4) Member of the Remuneration Committee.
- (5) Member of the Risk Committee.
- (6) Member of the Technology and Cybersecurity Committee.
- (7) Lead Director.

### **Major Shareholders and Share Capital**

On 18th October, 2017, Blackrock, Inc. communicated that it held an indirect interest of 5.939 per cent. in BBVA's share capital. As of 31st December, 2018, no other person, corporation or government beneficially owned, directly or indirectly, five per cent. or more of BBVA's share capital. BBVA's major shareholders do not have voting rights which are different from those held by the rest of its shareholders. To the extent known to BBVA, BBVA is not controlled, directly or indirectly, by any other corporation, government or any other natural or legal person.

As of 31st December, 2018, there were 902,708 registered holders of BBVA's shares, with an aggregate of 6,667,886,580 shares, of which 673 shareholders with registered addresses in the United States held a total of 1,309,609,889 shares (including shares represented by American Depositary Shares evidenced by American Depositary Receipts (ADRs)). Since certain of such shares and ADRs are held by nominees, the foregoing figures are not representative of the number of beneficial holders.

### **Legal Proceedings**

The Bank and its subsidiaries are involved in a number of legal and regulatory actions and proceedings, including legal claims and proceedings, civil and criminal regulatory proceedings, governmental investigations and proceedings, tax proceedings and other proceedings in jurisdictions around the world. Legal and regulatory actions and proceedings are subject to many uncertainties, and their outcomes, including the timing thereof, the amount of fines or settlements or the form of any settlements arising therefrom, or changes in business practices the Group may need to introduce as a result thereof, any of which may be material and are often difficult to predict, particularly in the early stages of a particular legal or regulatory matter.

As of the date hereof, the Bank and its subsidiaries are involved in a number of legal and regulatory actions and proceedings in various jurisdictions around the world (including, among others, Spain, Mexico and the United States), the adverse resolution of which may also adversely impact the Group. See "*Risk Factors—Business and Industry Risks—The Group is party to a number of legal and regulatory actions and proceedings*".

The Bank can provide no assurance that the legal and regulatory actions or proceedings to which is subject to will not, if resolved adversely, result in a material effect on the Group's financial position, results of operations or liquidity.

## CONDITIONS OF THE PREFERRED SECURITIES

*The following is the text of the Conditions of the Preferred Securities (save for the paragraphs of italicised text in Conditions 1, 3 and 12).*

The Preferred Securities (as defined below) are issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) by virtue of the resolutions passed by (i) the shareholders meeting (*Junta General Ordinaria de Accionistas*) of the Bank, held on 17th March, 2017 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 31st January, 2019 and in accordance with the First Additional Provision of Law 10/2014, of 26th June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 junio, de ordenación, supervisión y solvencia de entidades de crédito*) (as amended from time to time, **Law 10/2014**) and the CRR (as defined below).

The Preferred Securities are issued following the granting before a Spanish Notary Public and the registration with the Commercial Registry of Bizkaia of a public deed relating to the issuance of the Preferred Securities on or before the Closing Date (as defined below).

Paragraphs in italics within these Conditions are a summary of certain procedures of the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U., Iberclear*) and certain other information applicable to the Preferred Securities. Iberclear may, from time to time, change its procedures.

### 1. Definitions

1.1 For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

**5-year Mid-Swap Rate** means, in relation to a Reset Date and the Reset Period commencing on that Reset Date:

- (a) the rate for the Reset Date of the annual mid-swap rate for euro swap transactions maturing on the last day of such Reset Period, expressed as a percentage, which appears on the relevant Screen Page as of 11.00 a.m. (Central European Time) on the Reset Determination Date; or
- (b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

**5-year Mid-Swap Rate Quotations** means the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which:

- (a) has a term of 5 years commencing on the relevant Reset Date; and
- (b) is in a Representative Amount,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to (i) the rate for deposits in euro for a six month-period commencing on the relevant Reset Date offered by the principal Eurozone office of major banks in the Eurozone interbank market to prime banks in the Eurozone interbank market at the time the relevant 5-year Mid-Swap Rate Quotation is provided by the relevant Reference Banks or (ii) to the extent that an industry-accepted substitute or successor rate for the rate in (i) has been established, including the rate that would have been used for the floating leg of the mid-swap rate that was to appear on the relevant Screen Page at the relevant time if it had appeared at such time (as determined by BBVA in its sole discretion), such substitute or successor rate;

**Accounting Currency** means EUR or such other primary currency used in the presentation of the Group's accounts from time to time;

**Additional Common Shares** has the meaning given in Condition 6.5;

**Additional Tier 1 Capital** means Additional Tier 1 capital (*capital de nivel 1 adicional*) as provided under Applicable Banking Regulations;

**Additional Tier 1 Instrument** means any contractually subordinated obligation of the Bank constituting an Additional Tier 1 instrument (*instrumento de capital de nivel 1 adicional*) in accordance with Applicable Banking Regulations;

**AIAF** means the Spanish AIAF Fixed Income Securities Market (*AIAF Mercado de Renta Fija*);

**Applicable Banking Regulations** means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Bank and/or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD, the SRM Regulation and those laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect in Spain (whether or not such 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);

**BRRD** means Directive 2014/59/EU of the European Parliament and of the Council of 15th May establishing a framework for the recovery and resolution of credit institutions and investment firms or such other directive as may come into effect in place thereof, as implemented into Spanish law by Law 11/2015 and RD 1012/2015, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

**Business Day** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Madrid;

**Capital Event** means a change (or any pending change which the Regulator considers sufficiently certain) in Spanish law or Applicable Banking Regulations that results (or would result) in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital;

**Capital Reduction** means the adoption, in accordance with Article 418.3 of the Spanish Corporations Law, by a general shareholders' meeting of the Bank of a resolution of capital reduction by reimbursement of cash contributions (*restitución de aportaciones*) to shareholders by way of a reduction in the nominal value of the shares of such shareholders in the capital of the Bank. A resolution of capital reduction for the redemption of any Common Shares previously repurchased by the Bank will not be considered a Capital Reduction for the purposes of these Conditions;

**Capital Reduction Conversion** has the meaning given in Condition 6.2;

**Capital Reduction Notice** has the meaning given in Condition 6.2, which notice shall specify the Election Period and the procedures for Holders to deliver an Election Notice;

**Capital Reduction Notice Date** means the date on which a Capital Reduction Notice is given in accordance with Condition 6.2;

**Cash Dividend** means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "Spin-Off"; and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of "Dividend", but a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend;

**Certificate** has the meaning given in Condition 2.3;

**CET1 Capital** means, at any time, the common equity tier 1 capital of the Bank or the Group, respectively, as calculated by the Bank in accordance with Chapter 2 (Common Equity Tier 1 capital) of Title I (Elements of Own Funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

**CET1 ratio** means, at any time, with respect to the Bank or the Group, as the case may be, the reported ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Bank or the Group, respectively, at such time divided by the Risk Weighted Assets Amount of the Bank or the Group, respectively, at such time, all as calculated by the Bank;

**Clearstream, Luxembourg** means Clearstream Banking, S.A.;

**Closing Date** means 29th March, 2019;

**Closing Price** means, in respect of a Common Share and in relation to any dealing day, the price per Common Share quoted by the Relevant Stock Exchange as the closing price or closing auction price of a Common Share on such dealing day;

**CNMV** means the Spanish Market Securities Commission (*Comisión Nacional del Mercado de Valores*);

**Common Shares** means ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank and is credited as fully paid up;

**Conversion** means a Trigger Conversion or a Capital Reduction Conversion, as the case may be;

**Conversion Event** means a Trigger Event or a Capital Reduction, as the case may be;

**Conversion Notice** means a Trigger Event Notice or a Capital Reduction Notice, as the case may be;

**Conversion Notice Date** means the Trigger Event Notice Date or the Capital Reduction Notice Date, as the case may be;

**Conversion Price** means, in respect of a Conversion Notice Date, if the Common Shares are:

- (a) then admitted to trading on a Relevant Stock Exchange, the higher of:
  - (i) the Reference Market Price of a Common Share;
  - (ii) the Floor Price; and
  - (iii) the nominal value of a Common Share (being €0.49 on the Closing Date),
- (b) in each case on that Conversion Notice Date; or



not then admitted to trading on a Relevant Stock Exchange, the higher of (ii) and (iii) above;

**Conversion Settlement Date** means the date on which the relevant Common Shares are to be delivered on Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations may require) the Conversion Notice Date;

**Conversion Shares** has the meaning given in Condition 6.3;

**CRD IV** means any or any combination of the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

**CRD IV Directive** means Directive 2013/36/EU of the European Parliament and of the Council of 26th June, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended or replaced from time to time;

**CRD IV Implementing Measures** means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Bank (on a standalone basis) or the Group (on a consolidated basis) including, without limitation, Law 10/2014 and any other regulation, circular or guidelines implementing or developing Law 10/2014;

**CRR** means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26th June, 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time;

**Current Market Price** means, in respect of a Common Share at a particular date, the average of the daily Volume Weighted Average Price of a Common Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) (the **Relevant Period**); provided that if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

- (a) if the Common Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement; or
- (b) if the Common Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Common Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement,

and provided further that:

- (i) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Common Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of first public announcement relating to such Dividend or entitlement; and
- (ii) if the Volume Weighted Average Price of a Common Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

**dealing day** means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Common Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

**Delivery Notice** means a notice to be provided by the relevant Holder through the relevant Iberclear Member and in accordance with the applicable Iberclear procedures and Condition 6 which contains the relevant account and related details for the delivery of any Common Shares and which are required to be delivered in connection with a Conversion of the Preferred Securities and the delivery of the Common Shares;

*According to the Iberclear procedures applicable as of the Closing Date, Delivery Notices will take the form of a Swift MT565 communication.*

**Distributable Items** shall have the meaning given to such term in CRD IV, as interpreted and applied in accordance with Applicable Banking Regulations;

**Distribution** means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period, determined in accordance with Condition 4;

**Distribution Payment Date** means each of 29th June, 29th September, 29th December and 29th March in each year;

**Distribution Period** means the period from (and including) one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to (but excluding) the next Distribution Payment Date;

**Distribution Rate** means the rate at which the Preferred Securities accrue Distributions in accordance with Condition 4;

**Dividend** means any dividend or distribution to Shareholders in respect of the Common Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Common Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of share premium account, profits,

retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital, provided that:

- (a) where:
  - (i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Common Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Common Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or
  - (ii) there shall be any issue of Common Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Common Shares to be issued and delivered is determined;
- (b) any issue of Common Shares falling within Conditions 6.4.1 or 6.4.2 shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Corporations Law for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Common Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Common Share (before expenses) on any one day (a Specified Share Day) in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of a Common Share on the 5 dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has

been made of the intention to purchase, redeem or buy back Common Shares at some future date at a specified price or where a tender offer is made, on the 5 dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Common Share, a minimum price per Common Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Common Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of a Common Share determined as aforesaid and (ii) the number of Common Shares so purchased, redeemed or bought back;

- (d) if the Bank or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Common Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Common Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

**Election Notice** has the meaning given in Condition 6.2;

*According to the Iberclear procedures applicable as of the Closing Date, Election Notices will take the form of a Swift MT565 communication.*

**Eligible Persons** means those Holders or persons (being duly appointed proxies or representatives of such Holders) that are entitled to attend and vote at a meeting of the Holders, for the purposes of which no person shall be entitled to vote at any such meeting in respect of Preferred Securities held by or for the benefit, or on behalf, of the Bank or any of its Subsidiaries;

**equity share capital** means, in relation to any entity, its issued share capital excluding any part of that capital which, in respect of dividends and capital, does not carry any right to participate beyond a specific amount in a distribution;

**EUR, € and euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;

**Euroclear** means Euroclear Bank SA/NV;

**Existing Shareholders** has the meaning given in the definition of “Newco Scheme”;

**Extraordinary Resolution** has the meaning given in Condition 10;

**Fair Market Value** means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith provided that (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of 5 dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser in good faith, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Common Share, the dividend yield of a Common Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

**First Reset Date** means 29th March, 2024;

**Floor Price** means €3.75, subject to adjustment in accordance with Condition 6.4;

**Further Preferred Securities** means any similar securities or instruments to the Preferred Securities which securities or instruments are contingently convertible into Common Shares other than at the option of the holders thereof;

**Group** means the Bank together with its consolidated Subsidiaries;

**Holders** means the holders of the Preferred Securities and as further set out in Condition 2.3;

**Iberclear Members** means, at any time, the respective participating entities (*entidades participantes*) in Iberclear;

**Independent Financial Adviser** means an independent financial institution or financial adviser of international repute appointed by the Bank at its own expense;

**Initial Margin** means 6.039 per cent. per annum;

**Insolvency Law** means Law 22/2003 of 9th July, on Insolvency (*Ley Concursal*), as amended, replaced or supplemented from time to time;

**Law 11/2015** means Law 11/2015 of 18th June, 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;

**Liquidation Distribution** means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

**Liquidation Preference** means €200,000 per Preferred Security;

**Maximum Distributable Amount** means, at any time, any maximum distributable amount required to be calculated at such time in accordance with (a) Article 48 of Law 10/2014 and any provision developing Article 48 of Law 10/2014, and any other provision of Spanish law transposing or implementing Article 141 of the CRD IV Directive and/or (b) Applicable Banking Regulations;

**Newco** has the meaning given in the definition of “Newco Scheme”;

**Newco Scheme** means a scheme of arrangement or analogous proceeding (**Scheme of Arrangement**) which effects the interposition of a limited liability company (**Newco**) between the Shareholders of the Bank immediately prior to the Scheme of Arrangement (the **Existing Shareholders**) and the Bank, provided that:

- (i) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;
- (ii) immediately after completion of the Scheme of Arrangement the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders and the Voting Rights in respect of Newco are held by Existing Shareholders in the same proportions as their respective holdings of such Voting Rights immediately prior to the Scheme of Arrangement;
- (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Bank;
- (iv) all Subsidiaries of the Bank immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary) are Subsidiaries of the Bank (or of Newco) immediately after completion of the Scheme of Arrangement; and
- (v) immediately after completion of the Scheme of Arrangement, the Bank (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Bank immediately prior to the Scheme of Arrangement;

**Non-Cash Dividend** means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

**outstanding** means, in relation to the Preferred Securities, all the Preferred Securities issued other than those Preferred Securities:

- (a) that have been redeemed pursuant to Condition 7 or otherwise pursuant to the Conditions or cancelled pursuant to the exercise of any Spanish Statutory Loss-Absorption Power;
- (b) following a Conversion Event in respect of which all the remaining obligations of the Bank have been duly performed in relation thereto;
- (c) that have been purchased and cancelled under Condition 8; and
- (d) which claims have become void under Condition 14;

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Holders; and
- (ii) the determination of how many and which Preferred Securities are for the time being outstanding for the purposes of Condition 10,

those Preferred Securities (if any) which are for the time being held by or for the benefit of the Bank or any of its Subsidiaries shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

**Parity Securities** means any instrument issued or guaranteed by the Bank (including the guarantee thereof), which instrument or guarantee, respectively, ranks *pari passu* with the Preferred Securities upon the insolvency of the Bank;

**Preferred Securities** means these Series 8 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

**Prevailing Rate** means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at 12 noon (London time) on that date as appearing on or derived from the Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe;

**Qualifying Preferred Securities** has the meaning given in Condition 11.2;

**RD 1012/2015** means Royal Decree 1012/2015 of 6th November by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996 of 20th December on credit entities' deposit guarantee fund is amended (*Real Decreto 1012/2015, de 6 de noviembre, por el que se desarrolla la Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión, y por el que se modifica el Real Decreto 2606/1996, de 20 de diciembre, sobre fondos de garantía de depósitos de entidades de crédito*), as amended, replaced or supplemented from time to time;

**Recognised Stock Exchange** means an organised, regularly operating, recognised stock exchange or securities market;

**Redemption Price** means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

**Reference Banks** means 5 leading swap dealers in the Eurozone interbank market as selected by the Bank;

**Reference Date** means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day;

**Reference Market Price** means, in respect of a Common Share at a particular date, the arithmetic mean of the Closing Price per Common Share on each of the 5 consecutive dealing days on which such Closing Price is available ending on the dealing day immediately preceding such date, rounding the resulting figure to the nearest cent (half a cent being rounded upwards);

**Reference Page** means the relevant page on Bloomberg or Reuters or such other information service provider that displays the relevant information;

**Regulator** means the European Central Bank, *Banco de España* or the Relevant Spanish Resolution Authority, as applicable, or such other or successor authority having primary bank supervisory authority with respect to prudential matters or the exercise of resolution powers in relation to the Bank and/or the Group;

**Relevant Spanish Resolution Authority** means the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*), the Single Resolution Mechanism, the Bank of Spain, the Spanish Securities Market Commission or any other entity with the authority to exercise any of the resolution tools and powers contained in Law 11/2015 from time to time;

**Relevant Stock Exchange** means the Spanish Stock Exchanges or, if at the relevant time the Common Shares are not at that time listed and admitted to trading on the Spanish Stock Exchanges, the principal stock exchange or securities market on which the Common Shares are then listed, admitted to trading, quoted or accepted for dealing;

**Representative Amount** means an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market;

**Reset Date** means the First Reset Date and every fifth anniversary thereof;

**Reset Determination Date** means, in relation to each Reset Date, the second Business Day immediately preceding such Reset Date;

**Reset Period** means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

**Reset Reference Bank Rate** means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the arithmetic mean of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 a.m. (Central European Time) on the Reset Determination Date for such Reset Date. The Bank will request the principal office of each Reference Bank to provide a quotation of its rate. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the



immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.097 per cent. per annum;

**Retroactive Adjustment** has the meaning given in Condition 6.5;

**Risk Weighted Assets Amount** means at any time, with respect to the Bank or the Group, as the case may be, the aggregate amount (in the Accounting Currency) of the risk weighted assets of the Bank or the Group, respectively, calculated in accordance with CRR and/or Applicable Banking Regulations at such time;

**Scheme of Arrangement** has the meaning given in the definition of “Newco Scheme”;

**Screen Page** means the display page on the relevant Reuters information service designated as the “ICESWAP2” page, or such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate;

**Securities** means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

**Settlement Shares Depository** means a reputable financial institution, trust company or similar entity (which could be the Bank) appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed, to perform such functions and who will hold Conversion Shares in Iberclear or through an Iberclear Member in a designated custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

**Share Currency** means euro or such other currency in which the Common Shares are quoted or dealt in on the Relevant Stock Exchange at the relevant time or for the purposes of the relevant calculation or determination;

**Shareholders** means the holders of Common Shares, meaning the persons in whose names the relevant Common Shares are for the time being registered in the Spanish Central Registry or, as the case may be, the relevant Iberclear Member accounting book (or, in the case of a joint holding, the first such named holder);

**Spanish Central Registry** means the central registry of the Spanish clearance and settlement system managed by Iberclear;

**Spanish Corporations Law** means the consolidated text of the Corporate Enterprises Act (*Ley de Sociedades de Capital*), approved by the Royal Legislative Decree 1/2010, of 2nd July, as amended from time to time;

**Spanish Statutory Loss-Absorption Powers** means any write-down, conversion, transfer, modification, cancellation, 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 resolution of credit entities and/or transposition of the BRRD, including, but not limited to (i) Law 11/2015, (ii) RD 1012/2015, (iii) SRM Regulation, and (iv) any other instruments, rules or standards made or implemented in connection with either (i), (ii), (iii) or the BRRD, pursuant to which any obligation of a regulated entity (or other affiliate of such regulated entity) can be reduced, cancelled, modified, transferred or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period);

**Spanish Stock Exchanges** means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the Automated Quotation System – Continuous Market (*SIBE – Sistema de Interconexión Bursátil Español – Mercado Continuo*);

**Spin-Off** means:

- (a) a distribution of Spin-Off Securities by the Bank to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Bank or any member of the Group;

**Spin-Off Securities** means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

**SRM Regulation** means Regulation (EU) No. 806/2014 of the European Parliament and the Council of 15th July, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or replaced from time to time;

**SSM Regulation** means Council Regulation (EU) No. 1024/2013 of 15th October, 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, as amended or replaced from time to time;

**Subsidiary** means any entity over which the Bank may have, directly or indirectly, control in accordance with Article 42 of the Spanish Commercial Code (*Código de Comercio*) or Applicable Banking Regulations;

**TARGET2 Business Day** means any day on which the Trans-European Automated Real Time Gross Settlement Transfer (TARGET 2) system is open;

**Tax Event** means that as a result of any change in, or amendment to, the laws or regulations applicable in Spain or any change in the application or binding official interpretation or administration of any such laws or regulations, which change or amendment, or change in the application or binding official interpretation or administration, becomes effective on or after the Closing Date (a) the Bank would not be entitled to claim a deduction in computing its taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) the Bank would be required to pay additional amounts pursuant to Condition 12 below, or (c) the applicable tax treatment of the Preferred Securities would be materially affected;

**Tier 1 Capital** means at any time, with respect to the Bank or the Group, as the case may be, the Tier 1 capital (*capital de nivel 1*) of the Bank or the Group, respectively, as calculated by the Bank in accordance with Chapters 1, 2 and 3 (Tier 1 capital, Common Equity Tier 1 capital and Additional Tier 1 capital) of Title I (Elements of Own Funds) of Part Two (Own Funds) of the CRR and/or Applicable Banking Regulations at such time, including any applicable transitional, phasing in or similar provisions;

**Tier 2 Capital** means Tier 2 capital (*capital de nivel 2*) as provided under Applicable Banking Regulations;

**Tier 2 Instrument** means any contractually subordinated obligation of the Bank constituting a Tier 2 instrument (*instrumento de capital de nivel 2*) in accordance with Applicable Banking Regulations;

**Trigger Conversion** has the meaning given in Condition 6.1;

**Trigger Event** means if, at any time, the CET1 ratio is less than 5.125 per cent. as determined by the Bank;

**Trigger Event Notice** has the meaning given in Condition 6.1;

**Trigger Event Notice Date** means the date on which a Trigger Event Notice is given in accordance with Condition 6.1;

**Volume Weighted Average Price** means, in respect of a Common Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of a Common Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Common Share) from the Reference Page or (in the case of a Security (other than Common Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Common Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate;

**Voting Rights** means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency); and

**Waived Set-Off Rights** means any and all rights or claims of any holder of a Preferred Security against the Bank for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Preferred Security.

- 1.2 References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or in accordance therewith or under or in accordance with such modification or re-enactment.
- 1.3 References to any issue or offer or grant to Shareholders or Existing Shareholders **as a class** or **by way of rights** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.
- 1.4 In making any calculation or determination of Reference Market Price, Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Common Shares or any issue of Common Shares by way of capitalisation of profits or reserves, or any like or similar event.

- 1.5 For the purposes of Condition 6.4 only (a) references to the **issue** of Common Shares or Common Shares being **issued** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Common Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Common Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Conditions 6.4.4 and 6.4.6, do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

## 2. Form, Denomination and Title

- 2.1 The Preferred Securities have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate Liquidation Preference of €1,000,000,000 and a Liquidation Preference of €200,000 each.
- 2.2 The Preferred Securities have been registered with Iberclear as the managing entity of the Spanish Central Registry. Holders of a beneficial interest in the Preferred Securities who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Preferred Securities through bridge accounts maintained by each of Euroclear and Clearstream, Luxembourg with Iberclear.

Iberclear manages the settlement and clearing of the Preferred Securities, notwithstanding the Bank's commitment to assist, when appropriate, with the clearing and settlement of the Preferred Securities through Euroclear and Clearstream, Luxembourg. The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following International Securities Identification Number (ISIN) to identify the Preferred Securities: ES0813211010. The Common Code for this issue is 196968750.

- 2.3 Title to the Preferred Securities is evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as having an interest in the Preferred Securities shall be (except as otherwise required by Spanish law) considered the holder of the relevant Preferred Securities recorded therein. In these Conditions, the **Holder** means the person in whose name such Preferred Securities are for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book (or, in the case of a joint holding, the first such named holder).

One or more certificates (each, a **Certificate**) attesting to the relevant Holder's holding of Preferred Securities in the relevant registry will be delivered by the relevant Iberclear Member or, where the Holder is itself an Iberclear Member, by Iberclear (in each case, in accordance with the requirements of Spanish law and the relevant Iberclear Member's or, as the case may be, Iberclear's procedures) to such Holder upon such Holder's request.

The Preferred Securities are issued without any restrictions on their transferability. Consequently, the Preferred Securities may be transferred and title to the Preferred Securities may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable. Each Holder will be (except as otherwise required by Spanish law) treated as the absolute owner of the relevant Preferred Securities for all purposes (regardless of any notice of ownership, trust or any interest, or any writing on, or the theft or loss of, the Certificate issued in respect of it), and no person will be liable for so treating the Holder.

### **3. Status and Waived Set-Off Rights**

3.1 The obligations of the Bank under the Preferred Securities are subject to, and may be limited by, the exercise of any power pursuant to Law 11/2015, RD 1012/2015, the SRM Regulation or other applicable laws relating to recovery and resolution of credit institutions and investment firms in Spain.

3.2 Unless previously converted into Common Shares pursuant to Condition 6, the obligations of the Bank under the Preferred Securities constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in the case of insolvency (*concurso de acreedores*) of the Bank, in accordance with Article 92.2° of the Insolvency Law and Additional Provision 14.3 of Law 11/2015 but only to the extent permitted by the Insolvency Law or any other applicable laws relating to or affecting the enforcement of creditors' rights in Spain and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), for so long as the Preferred Securities constitute an Additional Tier 1 Instrument of the Bank, rank with respect to claims for any Liquidation Preference of Preferred Securities:

3.2.1 junior to (A) any unsubordinated obligations of the Bank (including where those obligations subsequently become subordinated pursuant to Article 92.1° of the Insolvency Law) and (B) any claim for principal in respect of any other contractually subordinated obligations of the Bank, present and future, not constituting Additional Tier 1 Capital of the Bank for the purposes of Section 3.(a) of Additional Provision 14 of Law 11/2015 (other than, to the extent permitted by law, any Parity Securities, whether so ranking by law or their terms);

3.2.2 *pari passu* with each other and with all other claims in respect of any liquidation preference or otherwise for principal in respect of contractually subordinated obligations of the Bank under any outstanding Additional Tier 1 Instruments, present and future (and, to the extent permitted by law, *pari passu* with any other Parity Securities, whether so ranking by law or their terms); and

3.2.3 senior to the Common Shares or any other subordinated obligations of the Bank which by law rank junior to the Preferred Securities (including, to the extent permitted by law, any contractually subordinated obligations of the Bank expressed by their terms to rank junior to the Preferred Securities).

The obligations of the Bank under the Preferred Securities are also subject to, and may be limited by, the exercise of any power pursuant to Law 11/2015, RD 1012/2015, the SRM

Regulation or other applicable laws relating to recovery and resolution of credit institutions and investment firms in Spain.

*See “Risk Factors – Factors which are material for the purpose of assessing the market risks associated with the Preferred Securities – The Preferred Securities may be subject to the exercise of the Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities”.*

- 3.3 No holder of the Preferred Securities may at any time exercise or claim any Waived Set-Off Rights against any right, claim or liability of the Bank or that the Bank may have or acquire against such holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities (including any non-contractual obligations) arising under or in relation to any and all agreements or other instruments of any kind, whether or not relating to such Preferred Security) and each holder of any Preferred Security shall be deemed to have waived all Waived-Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any amount payable by the Bank in respect of, or arising under or in connection with, any Preferred Security to any holder of such Preferred Security is discharged by set-off or netting, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Bank and, accordingly, any such discharge shall be deemed not to have taken place.

Nothing in this Condition 3.3 is intended to provide, or shall be construed as acknowledging, any Waived Set-Off Rights or that any such Waived Set-Off Right is or would be available to any holder of any Preferred Security but for this Condition 3.3.

#### **4. Distributions**

- 4.1 The Preferred Securities accrue Distributions:

4.1.1 in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.00 per cent. per annum; and

4.1.2 in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Bank on the relevant Reset Determination Date.

Subject as provided in Conditions 4.3, 4.4 and 4.5 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (a) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the Accrual Date) to (but excluding) the date on which Distributions fall due divided by (b) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

- 4.2 Subject to any applicable fiscal or other laws and regulations, the payment of Distributions on the Preferred Securities will be made in euro by the Bank on the relevant Distribution

Payment Date by transfer to an account capable of receiving euro payments, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at close of business on the day immediately preceding the relevant Distribution Payment Date. Holders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant Preferred Securities. The Bank will have no responsibility or liability for the records relating to payments made in respect of the Preferred Securities.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a TARGET2 Business Day, the payment will be postponed to the next TARGET2 Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

- 4.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time and for any (or no) reason.
- 4.4 Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank.

To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any interest payments or distributions that have been paid or made or are scheduled or required to be paid or made out of Distributable Items of the Bank in the then current financial year, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, and/or (ii) the Regulator, in accordance with Article 68 of Law 10/2014 and/or Article 16 of the SSM Regulation and/or with Applicable Banking Regulations then in force, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

- 4.5 No payments will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group).
- 4.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to Condition 4.3 above or the limitations on payment set out in Conditions 4.4 and 4.5 above, then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.
- 4.7 No such election to cancel the payment of any Distribution (or part thereof) pursuant to Condition 4.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in Conditions 4.4 and 4.5 above will constitute (i) an event of default, (ii) any breach of any obligation of the Bank under the Preferred Securities or (iii) the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1

Capital of the Bank or the Group) or in respect of any other Parity Security or other Securities, except to the extent Applicable Banking Regulations otherwise provide.

If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) in accordance with this Condition 4 or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) in accordance with this Condition 4, and accordingly, such Distribution shall not in any such case be due and payable.

- 4.8 Save as described in this Condition 4, the Preferred Securities will confer no right to participate in the profits of the Bank.
- 4.9 Payments in respect of the Preferred Securities will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 12 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12) any law implementing an intergovernmental approach thereto.
- 4.10 All references in these Conditions to Distributions shall be deemed to include, as applicable, any additional amounts payable pursuant to Condition 12 in respect thereof, including the automatic application of the same restrictions as to payment and considerations relating to cancellation as may apply to the corresponding Distribution.
- 4.11 The Bank will, at or as soon as practicable after the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Bank will cause the Distribution Rate for each Reset Period to be notified to any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 13 as soon as possible after its determination but in no event later than the fourth Business Day after each Reset Determination Date.
- 4.12 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on all Holders.

## **5. Liquidation Distribution**

- 5.1 Subject as provided in Condition 5.2 below, in the event of any voluntary or involuntary liquidation or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 6 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Common Shares or any other instrument of the Bank ranking junior to the Preferred Securities.
- 5.2 If, before such liquidation or winding-up of the Bank described in Condition 5.1, a Conversion Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to Condition 6 below is still to take place at such time, the entitlement conferred by the Preferred Securities for the purposes of Condition 5.1 will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of



the Bank if such conversion had taken place immediately prior to such liquidation or winding-up or otherwise in accordance with applicable law at such time.

- 5.3 After payment of the relevant entitlement in respect of a Preferred Security as described in Conditions 5.1 and 5.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

## 6. Conversion

- 6.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders in accordance with Condition 13 below or otherwise with the rules and regulations of any applicable stock exchange or other relevant authority (together, a **Trigger Event Notice**);
  - (b) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions, which shall be cancelled by the Bank in accordance with Condition 4 above; and
  - (c) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (a **Trigger Conversion**) to be delivered on the relevant Conversion Settlement Date.

The Bank shall further notify Holders of the expected Conversion Settlement Date and of the Conversion Price in accordance with Condition 13 not more than 10 Business Days following the Trigger Event Notice Date.

Any failure by the Bank to give a Trigger Event Notice or otherwise notify the Holders as provided in this Condition 6.1 will not in any way impact on the effectiveness of, or otherwise invalidate, any Trigger Conversion or give Holders any rights as a result of such failure.

Holders shall have no claim against the Bank in respect of (i) any Liquidation Preference of Preferred Securities converted into Common Shares or (ii) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

A Trigger Event will not constitute (i) an event of default, (ii) any breach of any obligation of the Bank under the Preferred Securities or (iii) the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (i) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (ii) calculate and publish the CET1 ratio on at least a quarterly basis. The Bank's calculation shall be binding on the Holders.

- 6.2 Subject as provided in Condition 7.6 below, if a Capital Reduction occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders in accordance with Condition 13 below or otherwise with the rules and regulations of any applicable stock exchange or other relevant authority (together, a **Capital Reduction Notice**); and
  - (b) subject as provided below, irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into

Common Shares (a **Capital Reduction Conversion**) to be delivered on the relevant Conversion Settlement Date and on such Conversion Settlement Date pay to the Holders, as applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the Conversion Settlement Date.

Holders shall have no claim against the Bank in respect of any Liquidation Preference of Preferred Securities converted into Common Shares pursuant to any Capital Reduction Conversion.

Notwithstanding the foregoing provisions of this Condition 6.2, if the Bank gives a Capital Reduction Notice, each Holder will have the right to elect that its Preferred Securities shall not be converted in accordance with this Condition 6.2, in which case the Preferred Securities of such Holder shall remain outstanding and no payment of any accrued and unpaid Distributions on such Preferred Securities shall be made to that Holder pursuant to subparagraph (b) above (although without prejudice to any future payment of such Distributions or any other Distributions that may accrue in respect of those Preferred Securities pursuant to Condition 4). To exercise such right, a Holder must deliver a duly completed notice, which shall be irrevocable (an **Election Notice**) to the Bank through the relevant Iberclear Member and in accordance with the Iberclear procedures applicable from time to time on or before the 10th Business Day immediately following the Capital Reduction Notice Date (the period from (and including) the Capital Reduction Notice Date to (and including) such 10th Business Day, the **Election Period**) which the said procedures permit.

Notwithstanding any of the above, any Preferred Securities that remain outstanding and are not converted pursuant to this Condition 6.2 may still be the subject of Conversion on the occurrence of the Trigger Event pursuant to Condition 6.1 above.

- 6.3 Subject as provided in the second paragraph of Condition 6.11, the number of Common Shares to be issued on Conversion in respect of each Preferred Security to be converted (the **Conversion Shares**) shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Conversion Notice Date.

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares either directly to the relevant Holder or, alternatively, to the Settlement Shares Depository on behalf of that Holder in accordance with Condition 6.10. Receipt of the Conversion Shares by the relevant Holder or the Settlement Shares Depository, as the case may be, shall discharge the Bank's obligations in respect of the Preferred Securities converted (other than, where applicable, the Bank's obligation under Condition 6.2(b) to make payment of an amount equal to any accrued and unpaid Distributions, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, Condition 4).

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares pursuant to these Conditions and a Holder shall have no further recourse to the Bank following any such delivery to that Holder or the Settlement Shares Depository. After the delivery of any Conversion Shares to the Settlement Shares Depository pursuant to these Conditions, the relevant Holders shall have recourse to the Settlement Shares Depository only and exclusively for the purposes of the delivery to them of such Conversion Shares or, in the circumstances described in Condition 6.10, any cash amounts to which such Holders are entitled under Condition 6.10.

If a Conversion Event occurs, the Preferred Securities will be converted in whole and not in part as provided in this Condition 6.

The Preferred Securities are not convertible into Common Shares at the option of Holders at any time and are not redeemable in cash as a result of a Conversion Event.

6.4 Upon the happening of any of the events described below, the Floor Price shall be adjusted as follows:

6.4.1 If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Common Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Common Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

6.4.2 If and whenever the Bank shall issue any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (i) where any such Common Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares or (iii) where any such Common Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such issue; and

B is the aggregate number of Common Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Common Shares.

6.4.3 (a) If and whenever the Bank shall pay or make any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Common Shares entitled to receive the relevant Dividend.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

**Effective Date** means, in respect of this Condition 6.4.3(a), the first date on which the Common Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

**Extraordinary Dividend** means any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term (including any distribution made as a result of any Capital Reduction), in which case the Extraordinary Dividend shall be such Cash Dividend.

- (b) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Common Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, by the number of Common Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Common Shares, or any Common Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

Effective Date means, in respect of this Condition 6.4.3(b), the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Common Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (c) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.
- (d) In making any calculations for the purposes of this Condition 6.4.3, such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (i) any consolidation or sub-division of any Common Shares or (ii) the issue of Common Shares by way of capitalisation of profits or reserves (or any like or similar event) or (iii) any increase in the number of Common Shares in issue in the Relevant Year in question.

6.4.4 If and whenever the Bank shall issue Common Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Common Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue on the Effective Date;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Common Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Common Share; and

C is the number of Common Shares to be issued or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the Effective Date such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6.4.4, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.4, the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

6.4.5 If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Common Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Common Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Common Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.5, the first date on which the Common Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

6.4.6 If and whenever the Bank shall issue (otherwise than as mentioned in Condition 6.4.4 above) wholly for cash or for no consideration any Common Shares (other than

Common Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Common Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 6.4.4 above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before the issue of such Common Shares or the grant of such options, warrants or rights;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the issue of such Common Shares or, as the case may be, for the Common Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Common Share on the Effective Date; and
- C is the number of Common Shares to be issued pursuant to such issue of such Common Shares or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the Effective Date such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of Condition 6.4.6, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.6, the date of issue of such Common Shares or, as the case may be, the grant of such options, warrants or rights.

- 6.4.7 If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Conditions 6.4.4, 6.4.5 or 6.4.6 above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall include any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Common Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be

reclassified/redesignated as Common Shares, and the consideration per Common Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Common Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Common Share; and
- C is the maximum number of Common Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Common Shares which may be issued or arise from any such reclassification/redesignation,

provided that if at the Effective Date such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this Condition 6.4.7, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.7, the date of issue of such Securities or, as the case may be, the grant of such rights.

- 6.4.8 If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the



Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in Condition 6.4.7 above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Common Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Common Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Common Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Common Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 6.4.8 or Condition 6.4.7 above,

provided that if at the Effective Date such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 6.4.8, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.8, the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

6.4.9 If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Conditions 6.4.2, 6.4.3, 6.4.4, 6.4.5 or 6.4.6 above or Condition 6.4.10 below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Common Share on the relevant dealing day under Condition 6.4.5 above) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this Condition 6.4.9, the first date on which the Common Shares are traded ex-rights on the Relevant Stock Exchange.

6.4.10 If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this Condition 6.4 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to ensure that (i) an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (ii) the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 6.4.4, 6.4.6, 6.4.7 and 6.4.8, the following provisions shall apply:

- (i) the aggregate consideration receivable or price for Common Shares issued for cash shall be the amount of such cash;

- (ii) (A) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities; (B) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Conditions 6.4.4, 6.4.6, 6.4.7 or 6.4.8, as the case may be, plus in the case of each of (A) and (B) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights; and (C) the consideration receivable or price per Common Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (A) or (B) above (as the case may be) divided by the number of Common Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (iii) if the consideration or price determined pursuant to (i) or (ii) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of (i) above) or the relevant date of first public announcement (in the case of (ii) above);
- (iv) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Common Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (v) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

6.5 If the Conversion Settlement Date in relation to the conversion of any Preferred Security shall be after the record date in respect of any consolidation, reclassification/redesignation or subdivision as is mentioned in Condition 6.4.1 above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Conditions 6.4.2, 6.4.3, 6.4.4, 6.4.5 or 6.4.9 above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 6.4.6 and 6.4.7 above or of the terms of any such modification as is mentioned in Condition 6.4.8 above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under Condition 6.4 above (such adjustment, a **Retroactive Adjustment**), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued and delivered to the Holders, in accordance with the instructions contained in the relevant Delivery Notices received by the Bank (or, failing receipt by the Bank of a duly completed Delivery Notice, to the Settlement Shares Depository), such additional number of Common Shares (if any) (the **Additional Common Shares**) as, together

with the Common Shares issued on conversion of the Preferred Securities (together with any fraction of a Common Share not so delivered to any relevant Holder), is equal to the number of Common Shares which would have been required to be issued and delivered on such Conversion if the relevant adjustment to the Floor Price had been made and become effective immediately prior to the relevant Conversion Notice Date, provided that if the Settlement Shares Depository and/or the Holders, as the case may be, shall be entitled to receive the relevant Dividend in respect of the Common Shares to be issued or delivered to them, then no such Retroactive Adjustment shall be made in relation to such Dividend and Additional Common Shares shall not be issued and delivered to the Settlement Shares Depository and/or the Holders, as the case may be, in relation thereto.

- 6.6 If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.
- 6.7 No adjustment will be made to the Floor Price where Common Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.
- 6.8 On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders in accordance with Condition 13 below or otherwise with the rules and regulations of any applicable stock exchange or other relevant authority promptly after the determination thereof.

- 6.9 On any Conversion of the Preferred Securities, the Common Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such Conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled. On any Trigger Event Notice Date, the Bank shall give instructions in accordance with the Iberclear procedures applicable from time to time so that all the Preferred Securities outstanding are blocked by Iberclear and the Iberclear Members at the relevant securities accounts on the Trigger Event Notice Date.
- 6.10 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Holders or the Settlement Shares Depository, as set out below, such number of Common Shares as is required to satisfy in full the Bank's obligation to deliver Common Shares in respect of the Conversion of the aggregate amount of Preferred Securities outstanding on the Conversion Notice Date.

In order to obtain delivery of the relevant Common Shares upon any Conversion from the Bank, the relevant Holder must deliver a duly completed Delivery Notice to the Bank through

the relevant Iberclear Member and in accordance with the Iberclear procedures applicable from time to time no later than the moment on or before the Conversion Settlement Date which the said procedures permit (the **Notice Cut-off Date**). The Bank shall give the relevant instructions, in accordance with the Iberclear procedures applicable from time to time, for the relevant Common Shares corresponding to the Preferred Securities in respect of which duly completed Delivery Notices have been delivered not later than the Notice Cut-off Date, to be delivered on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notices through Iberclear.

The Common Shares corresponding to the Preferred Securities in respect of which no duly completed Delivery Notices have been delivered on or before the Notice Cut-off Date shall be delivered by the Bank to the Settlement Shares Depository on the Conversion Settlement Date through Iberclear. Within ten Business Days following the Conversion Settlement Date, the Settlement Shares Depository will procure that all Common Shares so received are sold as soon as reasonably practicable and, subject to the deduction by or on behalf of the Settlement Shares Depository of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Settlement Shares Depository in connection with the sale and allotment thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with Condition 4.2 or in such other manner and at such time as the Bank shall determine and notify to the relevant Holders. Such payment shall for all purposes discharge the obligations of the Settlement Shares Depository in respect of the relevant Conversion.

The Settlement Shares Depository will be deemed to be acting on behalf of the relevant Holders of the Preferred Securities in respect of which no duly completed Delivery Notices are delivered on or before the Notice Cut-off Date for the purposes set out above and to that effect Holders of the Preferred Securities by virtue of the subscription and/or purchase and holding of the Preferred Securities will be deemed to be accepting and giving express instructions to the Settlement Shares Depository to do so in accordance with these Conditions.

If any Common Shares are not sold by the Settlement Shares Depository in accordance with this Condition 6.10, such Common Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice.

The Bank and the Settlement Shares Depository shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 6.10 or in respect of any sale of any Common Shares pursuant to these Conditions, whether for the timing of any such sale or the price at or manner in which any such Common Shares are sold or the inability to sell any such Common Shares.

Any costs incurred by the Settlement Shares Depository or any parent, subsidiary or affiliate of the Settlement Shares Depository in connection with the holding by the Settlement Shares Depository of any Common Shares and any amount received in respect thereof shall be deducted by the Settlement Shares Depository from such amount prior to the delivery of such Common Shares and payment of such amount to the relevant Holder.

- 6.11 Any Delivery Notice shall be irrevocable. Failure to properly complete and deliver a Delivery Notice may result in such Delivery Notice being treated as null and void, and the Bank shall be entitled to procure the sale of any applicable Common Shares to which the relevant Holder may be entitled in accordance with Condition 6.10. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in Condition 6.10 and this Condition 6.11 shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

Fractions of Common Shares will not be issued on Conversion or pursuant to Condition 6.5 and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices are received by or on behalf of the Bank such that the number of Conversion Shares or Additional Common Shares to be delivered by the Bank are to be registered in the same name, the number of such Conversion Shares or Additional Common Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Common Shares.

- 6.12 A Holder or the Settlement Shares Depository must pay (in the case of the Settlement Shares Depository by means of deduction from the net proceeds of sale referred to in Condition 6.10 above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion (other than any taxes or capital, issue and registration and transfer taxes or stamp duties payable in Spain by the Bank in respect of the issue and delivery of the Common Shares (including any Additional Common Shares) in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank) and such Holder or the Settlement Shares Depository (as the case may be) must pay (in the case of the Settlement Shares Depository, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or the Settlement Shares Depository, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or the Settlement Shares Depository, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

- 6.13 The Common Shares (including any Additional Common Shares) issued on Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Common Shares in issue on the relevant Conversion Notice Date or, in the case of Additional Common Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Common Shares or, as the case may be, Additional Common Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Notice Date or, as the case may be, the relevant Reference Date.
- 6.14 Notwithstanding any other provision of this Condition 6 and subject to compliance with the provisions of the Spanish Corporations Law and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Common Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

## **7. Optional Redemption**

- 7.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this Condition 7. The Preferred Securities are not redeemable at the option of the Holders at any time.
- 7.2 Subject to Condition 7.3, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, at any time on or after the First Reset Date, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated

Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at such time.

- 7.3 If, on or after the Closing Date, there is a Capital Event or a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, at any time, at the Redemption Price in accordance with Articles 77 and 78 of CRR, Article 29 of the Commission Delegated Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time.
- 7.4 The decision to redeem the Preferred Securities must be irrevocably notified by the Bank to Holders upon not less than 30 nor more than 90 days' notice prior to the relevant redemption date in accordance with Condition 13 below or otherwise with the rules and regulations of any applicable stock exchange or other relevant authority.
- 7.5 The Bank may not give a notice of redemption pursuant to this Condition 7 if a Trigger Event has occurred. If any notice of redemption of the Preferred Securities is given pursuant to this Condition 7 and a Trigger Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Preferred Securities on the relevant redemption date and, instead, the Conversion of the Preferred Securities shall take place as provided under Condition 6.
- 7.6 If a Capital Reduction Notice has been given, the Bank may not give a notice of redemption pursuant to this Condition 7 until the end of the Election Period. If any notice of redemption has been given pursuant to this Condition 7 and a Capital Reduction occurs on or prior to the redemption date, the relevant Capital Reduction Notice shall be automatically rescinded and shall be of no force and effect, and there shall be no conversion of the Preferred Securities pursuant to Condition 6.2 and, instead, the redemption of the Preferred Securities shall take place as provided under this Condition 7. Accordingly, the provisions of Condition 6.2 shall not apply to any such Capital Reduction and Holders of the Preferred Securities shall be deemed to have irrevocably waived their rights under Article 418 of the Spanish Corporations Law in such circumstances.
- 7.7 Upon any redemption of the Preferred Securities pursuant to this Condition 7:
- (i) the Bank shall give instructions in accordance with the Iberclear procedures applicable from time to time so that the Redemption Price is paid to the Holders;
  - (ii) all of the Preferred Securities shall be blocked and cancelled in the relevant security accounts by Iberclear and all applicable Iberclear Members upon the payment of the Redemption Price;
  - (iii) distributions on the Preferred Securities shall cease;
  - (iv) the Preferred Securities will no longer be considered outstanding; and
  - (v) the Holders will no longer have any rights as holders of the Preferred Securities.
- 7.8 If the Bank improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue, subject as provided in Condition 4 above, at the rate specified from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

## **8. Purchases of Preferred Securities**

The Bank, or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise, in accordance

with Articles 77 and 78 of CRR, Article 29 of the Commission Regulation (EU) 241/2014 and/or any other Applicable Banking Regulations in force at the relevant time.

Any Preferred Securities so acquired by the Bank or any member of the Group, shall cease to be outstanding for all purposes immediately on such acquisition (including any conversion of the Preferred Securities on the occurrence of any Conversion Event) and shall be immediately cancelled.

## **9. Undertakings**

So long as any Preferred Security remains outstanding, the Bank will, save with the approval of an Extraordinary Resolution:

- (a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Common Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (b) if any offer is to be made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Common Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices and/or the website of the Bank and, where such an offer or scheme has been recommended by the board of directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Common Shares issued during the period of the offer or scheme arising out of any Conversion and/or to the Holders;
- (c) in the event of a Newco Scheme, take (or will procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the ordinary shares of Newco are:
  - (i) admitted to the Relevant Stock Exchange; or
  - (ii) listed and/or admitted to trading on another Recognised Stock Exchange,and the Holders irrevocably authorise the Bank to make such amendments to these Conditions without the need for any further authorisation from the Holders;
- (d) issue, allot and deliver Common Shares upon Conversion subject to and as provided in Condition 6;
- (e) use all reasonable endeavours to ensure that its issued and outstanding Common Shares and any Common Shares issued upon Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;
- (f) at all times keep in force the relevant resolutions needed for issue, free from preemptive rights, sufficient authorised but unissued Common Shares to enable



Conversion of the Preferred Securities, and all rights of subscription and exchange for Common Shares, to be satisfied in full; and

- (g) where the provisions of Condition 6 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, use all reasonable endeavours promptly to appoint such person for such purpose.

## 10. Meetings of Holders

### 10.1 Convening of Meetings, Quorum, Adjourned Meetings

10.1.1 The Bank may at any time and, if required in writing by Holders holding not less than ten per cent. in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall convene a meeting of the Holders and, if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders. Every meeting shall be held at a time and place approved by the Bank.

10.1.2 At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 13. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (i) specify the terms of the Extraordinary Resolution to be proposed or (ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Bank, provided that, in the case of (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (a) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (b) inform Holders that details of the voting arrangements are available free of charge from the Bank, provided that, in the case of (b), the final form of such details are so available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).

10.1.3 The person (who may but need not be a Holder) nominated in writing by the Bank (the **Chairman**) shall be entitled to take the chair at each meeting but, if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting, the Holders present shall choose one of their number to be Chairman failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

10.1.4 At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with Condition 10.1.3) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding provided that at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

- (i) a reduction or cancellation of the Liquidation Preference of the Preferred Securities; or
- (ii) without prejudice to the provisions of Condition 4 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction or cancellation of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or
- (iii) a modification of the currency in which payments under the Preferred Securities are to be made; or
- (iv) a modification of the majority required to pass an Extraordinary Resolution; or
- (v) the sanctioning of any scheme or proposal described in Condition 10.2.8(vi); or
- (vi) alteration of this proviso or the proviso to Condition 10.1.5 below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

10.1.5 If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to Condition 10.1.1, be dissolved. In any other case it shall be adjourned to the same day in the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Bank). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Bank, and the provisions of this sentence shall apply to all further adjourned meetings.

10.1.6 At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to Condition 10.1.4 the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

10.1.7 Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in Condition 10.1.2 and the notice shall state the relevant quorum. Subject to this it shall not be necessary to give any notice of an adjourned meeting.

## 10.2 Conduct of Business at Meetings

10.2.1 Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.

10.2.2 At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

10.2.3 Subject to Condition 10.2.5, if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.

10.2.4 The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.

10.2.5 Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.

10.2.6 Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the proviso to the definition of **outstanding** in Condition 1, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.

10.2.7 Subject as provided in Condition 10.2.6, at any meeting:

- (i) on a show of hands every Eligible Person present shall have one vote; and
- (ii) on a poll every Eligible Person present shall have one vote in respect of each €1.00 of Liquidation Preference of Preferred Securities in respect of which he is an Eligible Person.

10.2.8 A meeting of the Holders shall, in addition to the powers set out above, have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to quorum contained in Conditions 10.1.4 and 10.1.6):

- (i) power to approve any compromise or arrangement proposed to be made between the Bank and the Holders;
- (ii) power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Preferred Securities or otherwise;
- (iii) power to agree to any modification of the provisions contained in these Conditions or the Preferred Securities, which is proposed by the Bank;
- (iv) power to give any authority or approval which under the provisions of this Condition 10 or the Preferred Securities is required to be given by Extraordinary Resolution;
- (v) power to appoint any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;
- (vi) power to approve any scheme or proposal for the exchange or sale of the Preferred Securities for, or the conversion of the Preferred Securities into, or the cancellation of the Preferred Securities in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Bank or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash; and
- (vii) power to approve the substitution of any entity in place of the Bank (or any previous substitute) as the principal debtor in respect of the Preferred Securities.

### 10.3 Miscellaneous

10.3.1 Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 13 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

10.3.2 The expression **Extraordinary Resolution** when used in this Condition 10 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll.

10.3.3 Subject to Condition 10.2.1, to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on

the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.

10.3.4 Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had at the meeting to have been duly passed or had.

10.3.5 For the purposes of calculating a period of **clear days**, no account shall be taken of the day on which a period commences or the day on which a period ends.

## **11. Modification, substitution and variation**

11.1 By its acquisition of the Preferred Securities, each Holder (which for these purposes includes each holder of a beneficial interest in the Preferred Securities) will be deemed to have expressly consented to any modification of the Preferred Securities pursuant to this Condition 11.1. Without any requirement for any further consent or approval of the Holders (whether pursuant to Condition 10 or otherwise) and without limiting and notwithstanding Condition 11.2 below, the Bank may effect:

- (a) any modification of the Preferred Securities which is not, in the opinion of the Bank, prejudicial to the interests of the Holders; or
- (b) any modification of the Preferred Securities which, in the opinion of the Bank, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 13 as soon as practicable thereafter.

11.2 By its acquisition of the Preferred Securities, each Holder (which for these purposes includes each holder of a beneficial interest in the Preferred Securities) will be deemed to have expressly consented to any modification of the Preferred Securities pursuant to this Condition 11.2. Without any requirement for any further consent or approval of the Holders (whether pursuant to Condition 10 or otherwise) and without limiting and notwithstanding Condition 11.1 above, if a Capital Event or a Tax Event, as applicable, occurs and is continuing, the Bank may substitute or modify the terms of all (but not some only) of the Preferred Securities provided that any variation in the terms of the Preferred Securities resulting from such substitution or modification is not materially prejudicial to the interests of the Holders, so that the Preferred Securities are substituted for, or the terms and conditions of the Preferred Securities are varied to become again or remain, Qualifying Preferred Securities, at any time prior to the occurrence of either a Trigger Event or a Capital Reduction on giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date for such substitution or, as applicable, variation), and subject to the prior consent of the Regulator if required pursuant to Applicable Banking Regulations.

For the purposes of the foregoing paragraph, any variation in the ranking of the relevant Preferred Securities as set out in Condition 3 resulting from any such substitution or modification shall be deemed not to be prejudicial to the interests of the Holders where the ranking of such Preferred Securities following such substitution or modification is at least the

same ranking as is applicable to such Preferred Securities under Condition 3 on the Closing Date of such Preferred Securities.

Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Holders can inspect or obtain copies of the new terms and conditions of the Preferred Securities. Such substitution or variation will be effected without any cost or charge to the Holders.

Holders (which for the purpose of this Condition 11.2 includes each holder of a beneficial interest in the Preferred Securities) shall, by virtue of purchasing and holding any Preferred Securities, be deemed to accept any substitution or variation of the terms pursuant to this Condition 11.2 and to grant to the Bank full power and authority to take any action and/or to execute and deliver any document in the name and/or on behalf of the Holders which is necessary or convenient to complete any such substitution or variation.

In these Conditions:

**Qualifying Preferred Securities** means, at any time, any securities or other instruments issued directly or indirectly by the Bank that:

- (a) contain terms which comply with the then current requirements to be included in, or count towards, the Group's and the Bank's Tier 1 Capital;
- (b) have at least the same ranking as is applicable to the Preferred Securities under Condition 3.1 on the Closing Date;
- (c) have the same denomination and aggregate outstanding Liquidation Preference, the same terms for the determination of any applicable Distributions, the same redemption rights as the Preferred Securities, the same dates for payment of Distributions as the Preferred Securities immediately prior to any substitution or variation pursuant to this Condition 11.2;
- (d) preserve any existing rights under the Preferred Securities to any accrued Distributions which have not been paid in respect of the period from (and including) the Distribution Payment Date last preceding the date of substitution or variation; and
- (e) are listed or admitted to trading on any stock exchange as selected by the Bank, if the Preferred Securities were listed or admitted to trading on a stock exchange immediately prior to the relevant substitution or variation pursuant to this Condition 11.2.

## **12. Taxation**

- 12.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain, or any political subdivision thereof or any authority or agency therein or thereof having power to tax (for the purposes of this Condition 12, **Spain**) in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made out of Distributable Items on the same basis as for payment of any Distribution in accordance with Condition 4) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.

- 12.2 The Bank shall not be required to pay any additional amounts as referred to in Condition 12.1 in relation to any payment in respect of Preferred Securities:
- (a) to a Holder (or to a third party on behalf of a Holder) who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than the mere holding of Preferred Securities; or
  - (b) to a Holder (or to a third party on behalf of a Holder) in respect of whose Preferred Securities the Bank has not received such information as may be necessary to allow payments on such Preferred Securities to be made free and clear of withholding tax or deduction on account of any taxes imposed by Spain, including a Holder (or a third party on behalf of a Holder) who does not provide to the Bank or an agent acting on behalf of the Bank the information concerning such Holder's identity and tax residence as may be required in order to comply with any applicable procedures that may be implemented.
- 12.3 For the purposes of this Condition 12, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly paid on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with Condition 13 below.

*See "Taxation" for a fuller description of certain tax considerations relating to the Preferred Securities.*

### 13. Notices

The Bank shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed and/or admitted to trading.

So long as the Preferred Securities are listed on AIAF, to the extent required by the applicable regulations, the Bank shall ensure that (i) the communication of all notices will be made public to the market through a filing of the relevant/price sensitive information (*información relevante /privilegiada*) announcement, as the case may be, with the CNMV and to be published at the CNMV's official website at [www.cnmv.es](http://www.cnmv.es); and (ii) all notices to the Holders will be published in the official bulletin of AIAF (*Boletín de Cotización de AIAF*).

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Bank may approve.

In addition, so long as the Preferred Securities are represented by book-entries in Iberclear, all notices to Holders shall be made through Iberclear for on transmission to their respective accountholders.

### 14. Prescription

To the extent that Article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

## 15. Governing Law and Jurisdiction

- 15.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, the common laws of the Kingdom of Spain (*Derecho común español*).
- 15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of Spain in the city of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Spain in the city of Madrid. To the extent permitted by law, nothing contained in this Condition 15 shall limit any right of any Holder (other than in relation to any Bail-in Dispute (as defined below)) to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

In addition, the Spanish courts have exclusive jurisdiction to settle any Bail-in Dispute and accordingly each of the Bank and any Holder in relation to any dispute arising out of or in connection with the application of any Spanish Statutory Loss-Absorption Powers by the Relevant Spanish Resolution Authority (a **Bail-in Dispute**) submits to the exclusive jurisdiction of the Spanish courts. Each of the Bank and any Holder in relation to a Bail-in Dispute further waives any objection to the Spanish courts on the grounds that they are an inconvenient or inappropriate forum to settle any Bail-in Dispute.



## **USE OF PROCEEDS**

The net proceeds from the issue of the Preferred Securities will be used for the Group's general corporate purposes, which include making a profit.

## TAXATION

### SPANISH TAXATION

*The following summary refers solely to certain Spanish tax consequences of the acquisition, ownership and disposition of the Preferred Securities and Common Shares. It does not purport to be a complete analysis of all tax consequences relating to the Preferred Securities and Common Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which might be subject to special rules. Prospective investors should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Preferred Securities and Common Shares and receiving any payments under the Preferred Securities and Common Shares. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. References in this section to Holders include the beneficial owners of the Preferred Securities and Common Shares, where applicable.*

#### **Acquisition of the Preferred Securities and Common Shares**

The issue of, subscription for, transfer and acquisition of the Preferred Securities and Common Shares is exempt from Transfer and Stamp Tax (*Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*) and Value Added Tax (*Impuesto sobre el Valor Añadido*).

#### **Taxation on the income and transfer of the Preferred Securities and Common Shares**

The tax treatment of the acquisition, holding and subsequent transfer of the Preferred Securities and Common Shares is summarised below and is based on the tax regime applicable pursuant to:

- (a) for individuals resident for tax purposes in Spain which are subject to the PIT (*Impuesto sobre la Renta de las Personas Físicas*), Law 35/2006 of 28th November, on the PIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, and Royal Decree 439/2007, of 30th March promulgating the PIT Regulations, along with Law 19/1991 of 6th June approving the Wealth Tax Law (*Impuesto sobre el Patrimonio*) and Law 29/1987, of 18th December on Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*);
- (b) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (**CIT**) (*Impuesto sobre Sociedades*), Law 27/2014 of 27th November and Royal Decree 634/2015, of 10th July promulgating the CIT Regulations; and
- (c) for individuals and entities who are not resident for tax purposes in Spain which are subject to Non-Resident Income Tax (**NRIT**) (*Impuesto sobre la Renta de los no Residentes*), Royal Legislative Decree 5/2004 of 5th March approving the consolidated text of the Non-Resident Income Tax Law, as amended (the **Non-Resident Income Tax Law**), Royal Decree 1776/2004 of 30th July approving the Non-Resident Income Tax Regulations as amended, Law 19/1991 of 6th June approving the Wealth Tax Law and Law 29/1987 of 18th December approving the Inheritance and Gift Tax Law.

Consideration has also been given to Spanish legislation on the issuance of the Preferred Securities and debt securities (Law 10/2014) and RD 1065/2007.

## **Preferred Securities**

### ***Individuals with Tax Residency in Spain***

#### **Personal Income Tax**

Income obtained by Holders who are PIT taxpayers, both as interest and income obtained in connection with the transfer, redemption or repayment of the Preferred Securities, shall be considered income on investments obtained from the assignment of an individual's capital to third parties, as defined in Section 25.2 of PIT Law, and therefore will be taxed as savings income at the applicable rate (currently varying from 19 per cent. to 23 per cent.).

A 19 per cent. withholding on account of PIT will be imposed by the Bank on interest payments as well as on income derived from the redemption or repayment of the Preferred Securities, by individual investors subject to PIT.

However, with certain exceptions, income derived from the transfer of the Preferred Securities should not be generally subject to withholding on account of PIT provided that the Preferred Securities are:

- (i) registered by way of book-entries (*anotaciones en cuenta*); and
- (ii) negotiated in a Spanish official secondary market (*mercado secundario oficial*), such as AIAF,

except that withholding tax shall apply to the part of the transfer price that corresponds to the accrued interest when the transfer of the Preferred Securities takes place within the 30-day period prior to the moment in which such interest is due, when the following requirements are fulfilled: (i) the acquirer is an individual or entity not resident in Spanish territory, or is a taxable person for CIT purposes; and (ii) the express yield derived from the Preferred Securities being transferred is exempt from the obligation to withhold in relation to the acquirer.

In any event, the individual holder may credit the withholding tax applied by the Bank against his or her final PIT liability for the relevant tax year.

#### **Wealth Tax**

Individuals with tax residency in Spain are currently subject to Wealth Tax to the extent that their net worth exceeds €700,000, without prejudice to any exemption which may apply and the laws and regulations in force in each autonomous region (*Comunidad Autónoma*), at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., on the value of the Preferred Securities which they hold as at the end of the relevant fiscal year.

In accordance with Article 3 of Royal Decree-Law 27/2018, approved on 28 December, 2018, the full exemption from this tax has been revoked for 2019.

#### **Inheritance and Gift Tax**

Individuals resident in Spain for tax purposes who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy will be subject to Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules. The effective tax rates currently range between 0 per cent. and 81.6 per cent., depending on relevant factors.

## *Legal Entities with Tax Residency in Spain*

### **Corporate Income Tax**

Both interest periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities are subject to CIT (at the current general tax rate of 25 per cent.) in accordance with the rules for this tax.

Pursuant to Section 44.4 of RD 1065/2007, there is no obligation to withhold on income payable to CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Bank will not withhold tax on interest payments to Spanish CIT taxpayers or on income derived from the redemption or repayment of the Preferred Securities provided that the reporting obligations described in section “—*Tax Reporting Obligations of the Bank*” are complied with.

With regard to income derived from the transfer of the Preferred Securities, in accordance with article 61.q of the CIT regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) provided that the relevant securities are:

- (i) registered by way of book-entries (*anotaciones en cuenta*); and
- (ii) negotiated in a Spanish official secondary market (mercado secundario oficial), such as AIAF.

### **Wealth Tax**

Legal entities are not subject to Wealth Tax.

### **Inheritance and Gift Tax**

Legal entities resident in Spain for tax purposes (and NRIT taxpayers acting through a permanent establishment in Spain, as described below) which acquire ownership or other rights over the relevant securities by inheritance, gift or legacy are not subject to Spanish Inheritance and Gift Tax.

## *Individuals and Legal Entities with no Tax Residency in Spain*

### **Non-Resident Income Tax**

#### *Investors with no Tax Residency in Spain, acting through a Permanent Establishment in Spain*

If the Preferred Securities form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are, generally, the same as those set forth above for Spanish CIT taxpayers. See “—*Legal Entities with Tax Residency in Spain-Corporate Income Tax*”.

Ownership of the Preferred Securities by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

#### *Investors with no Tax Residency in Spain not acting through a permanent establishment in Spain*

Income obtained by holders who are not tax resident in Spain acting for these purposes without a permanent establishment within Spain is exempt from NRIT, provided certain requirements are met, including that in respect of interest payments from the Preferred Securities carried out by the Bank, the Iberclear Members that have the Preferred Securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide the Bank, in a timely manner, with a duly executed and completed Payment Statement, as defined below, as set forth in article 44 of the regulations approved

by RD 1065/2007. See “—*Tax Reporting Obligations of the Bank*”.

## **Wealth Tax**

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., without prejudice to any exemption or reductions which may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as of 31st December, 2019.

In accordance with Article 3 of Royal Decree-Law 27/2018, approved on 28th December, 2018, the full exemption from this tax has been revoked for 2019.

As a consequence of the European Court of Justice judgment (Case C-127/12), the Net Wealth Tax Law has been amended by Law 26/2014, of 27th November. As a result, Non-Spanish tax resident individuals who are residents in the EU or in the EEA can apply the legislation of the region in which the highest value of the assets and rights of the individuals are (i) located, (ii) can be exercised or (iii) must be fulfilled.

Legal entities are not subject to Wealth Tax.

## **Inheritance and Gift Tax**

The transfer of the Preferred Securities to individuals by inheritance, legacy or donation shall be subject to the general rules of Inheritance and Gift Tax in accordance with the applicable Spanish and State rules even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT signed by Spain.

The effective tax rate, after applying all relevant factors, ranges between 0 per cent. and 81.6 per cent.

However, a judgment from the European Court of Justice dated 3rd September, 2014 (Case C-127/12) declared that the Spanish Inheritance Tax Act is against the principle of free movement of capital within the EU as Spanish residents are granted tax benefits that, in practice, allow them to pay much lower taxes than non-residents. According to Law 26/2014, of 27th November, it will be possible to apply tax benefits approved in some Spanish regions to residents either in the EU or in the EEA by following certain specific rules.

Moreover, the Spanish Supreme Court in its recent judgments dated 19th February, 2018, 21st March 2018 and 22nd March, 2018 has declared that the application of state regulations when the deceased, heir or donee is resident outside of a Member State of the EU or the EEA violates Community law to the free movement of capital, so even in that case it would be appropriate to defend the application of regional regulations in the same cases as if the deceased, heir or donee was resident in a Member State of the EU or the EEA. The General Directorate for Taxation has recently ruled in accordance with those judgements (V3151-18 and V3193-18).

In the event that the beneficiary is an entity other than a natural person, the income obtained shall be subject to Non-Resident Income Tax and without prejudice, in the latter event, to the provisions of any DTT that may apply.

## ***Tax Reporting Obligations of the Bank***

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. The procedures apply to interest deriving from preference

shares and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

According to the literal wording of Article 44.4 of RD 1065/2007, income derived from securities originally registered with Iberclear will be paid by the Bank net of Spanish withholding tax (currently, at a rate of 19 per cent.) if the recipient of the payment is an individual resident in Spain for tax purposes and subject to Spanish PIT. The Bank will not pay any additional amounts in respect of any such withholding tax.

On the other hand, Distribution payments made by the Bank in respect of the Preferred Securities for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish CIT taxpayers, will not be subject to Spanish withholding tax, provided that the Iberclear Members that have the securities registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Bank, in a timely manner, with a duly executed and completed statement (a **Payment Statement**), in accordance with section 4 of article 44 of the regulations approved by RD 1065/2007, with the following information:

- (i) identification of the securities;
- (ii) total amount of the income paid by the Bank;
- (iii) amount of the income corresponding to individuals residents in Spain that are PIT taxpayers; and
- (iv) amount of the income that must be paid on a gross basis.

In accordance with Article 44 of RD 1065/2007, the Iberclear Members should provide the Bank with the statement on the business day immediately prior to each interest payment date. The statement must reflect the situation at the close of business of that same day. In the event that on the date, the entities obliged to provide the declaration fail to do so, the Bank will make a withholding at the general rate of 19 per cent. on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event withholding tax should be required by law, the Bank shall pay such additional amounts as would have been received had no such withholding or deduction been required, except as provided in Condition 12 and as otherwise described in this Prospectus.

In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Bank will notify the Holders of such information procedures and their implications, as the Bank may be required to apply withholding tax on Distributions in respect of the Preferred Securities if the Holders do not comply with such information procedures.

## **Conversion of the Preferred Securities into Common Shares**

### ***Individuals with tax residency in Spain***

#### **Personal Income Tax**

Income obtained on the conversion of the Preferred Securities into Common Shares, computed as the difference between the market value of the Common Shares received and the acquisition or subscription value of the Preferred Securities delivered in exchange, will be considered as a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law.

The tax treatment will be as described above in relation to the Personal Income Tax treatment in respect of the Preferred Securities.

### **Corporate Income Tax**

Subject to the applicable accounting regulations, income derived from the conversion of the Preferred Securities into Common Shares will be computed as the difference between the market value of the Common Shares received and the book value of the Preferred Securities delivered in exchange. Such income will be subject to CIT at the current general rate of 25 per cent., in accordance with the rules for this tax.

The tax treatment will be as described above in relation to the Corporate Income Tax treatment in respect of the Preferred Securities.

### ***Individuals and Legal Entities with no Tax Residency in Spain***

#### **Non-Resident Income Tax**

##### ***Investors with no Tax Residency in Spain, acting through a Permanent Establishment in Spain***

Non-Spanish tax resident investors operating through a permanent establishment in Spain are subject to the same tax treatment that applies to Spanish CIT taxpayers.

##### ***Investors with no Tax Residency in Spain not acting through a permanent establishment in Spain***

Income obtained by non-Spanish tax resident investors on the conversion of the Preferred Securities into Common Shares will be exempt from such NRIT and from withholding tax on account of NRIT.

The tax treatment applicable to the income obtained will be as described above in relation to the Non-Resident Income Tax treatment in respect of the Preferred Securities.

#### **Common Shares**

### ***Individuals and Legal Entities with no Tax Residency in Spain***

#### **Non-Resident Income Tax**

##### ***Investors with no Tax Residency in Spain not acting through a permanent establishment in Spain***

###### **(i) Taxation of dividends**

Under Spanish law, dividends paid to a non-Spanish resident Holder in Spain not acting through a permanent establishment in Spain in respect of the Common Shares are subject to the Spanish Non-Resident Income Tax (**NRIT**), and therefore a 19 per cent. withholding tax is currently applied on the gross amount of dividends.

The Order of 13th April, 2000, establishes the procedure applicable to dividend payments made to Holders subject to the Spanish Non-Residents Income Tax.

However, when a DTT applies, the non-resident is entitled to the Treaty-reduced rate. To benefit from the Treaty-reduced rate, the non-resident must provide to the Bank or to the Spanish resident depository, if any, through which its Common Shares are held, a certificate of tax residence issued by the tax authorities of the country of residence, within the meaning of the relevant DTT.

In addition, pursuant to the provisions set forth under article 14.1.h) of the Non-Resident Income Tax Law, non-Spanish corporate Holders with residence in the European Union who (i) hold at least 5 per cent. of the share capital of a Spanish Company or who acquire shares of a Spanish Company with an

acquisition value of more than €20 million, and (ii) who hold the relevant shares for an uninterrupted period of at least one year (which requirement may be fulfilled after the dividend deriving from the relevant shares is received), may benefit from an exemption from NRIT on dividends deriving from the relevant shares, provided that the rest of conditions of article 14.1.h) NRIT are met.

However, this exemption from NRIT will not apply if the majority of the voting rights in the parent company of the Spanish Company in which the relevant shareholding is acquired are held, directly or indirectly, by natural or legal persons which are non-resident in the European Union or in a country of the European Economic Area with an effective exchange information procedure according to Law 36/2006, of 29th November unless it can be demonstrated that the formation and performance of the relevant Spanish Company was and is carried out for valid economic reasons and substantial business reasons.

(ii) Taxation of capital gains

Capital gains realised by non-Spanish resident Holders not acting through a permanent establishment in Spain in respect of the Common Shares will be taxed under the rules provided by the Non-Resident Income Tax Law.

However, capital gains realised by a Holder will be exempt from Spanish Non-Residents Income Tax in the following cases:

- If such Holder is a resident of another European Union Member State, it will be exempt from Spanish Non-Residents Income Tax on capital gains, provided that (i) the Bank's assets do not mainly consist of, directly or indirectly, Spanish real estate, (ii) in the case of individual taxpayers the seller has not maintained a direct or indirect holding of at least 25 per cent. of the Common Shares outstanding during the twelve months preceding the disposition of the latter, (iii) in the case of a non-resident entity, the sale falls within the exemption provided for in Article 21 of Law 27/2014 (in general terms and among other requirements, where that entity's ownership interest is at least 5 per cent. or the acquisition value is more than €20,000,000), and (iv) the gain is not obtained through a country or territory statutorily defined as a tax haven.
- If the transfer of Common Shares in an official Spanish secondary stock market is made by any Holder who is resident in a country that has entered into a DTT with Spain containing an exchange of information clause (including the Treaty), the gain obtained will be exempt from taxation in Spain. This exemption is not applicable to capital gains obtained through a country or territory defined as a tax haven under applicable Spanish regulations.
- If such Holder benefits from a DTT that provides for taxation only in such non-Spanish resident Holder's country of residence.

In the event that a capital gain derived from the disposition of Common Shares is exempt from Spanish Non-Residents Income Tax, such Holder will be obliged to file with the Spanish tax authorities the corresponding 210 tax Form evidencing its entitlement to the exemption and providing the Spanish tax authorities with a certificate of tax residence issued by the tax authorities of the country of residence, within the meaning of a DTT, if applicable.

***Investors with no Tax Residency in Spain, acting through a Permanent Establishment in Spain***

(i) Taxation of dividends



If the Common Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such ordinary shares are the same as those for legal entities with tax residency in Spain described below.

Ownership of the Common Shares by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

(ii) Taxation of capital gains

If the Common Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to capital gains derived from such ordinary shares are the same as those for legal entities with tax residency in Spain described below.

***Wealth Tax***

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., without prejudice to any reductions which may apply. Therefore, such individuals should take into account the value of the Common Shares which they hold as at 31st December, 2019.

In accordance with Article 3 of Royal Decree-Law 27/2018, approved on 28th December, 2018, the full exemption from this tax has been revoked for 2019.

As a consequence of the European Court of Justice judgment (Case C-127/12), the Net Wealth Tax Law has been amended by Law 26/2014, of 27th November. As a result, Non-Spanish tax resident individuals who are residents in the EU or in the European Economic Area can apply the legislation of the region in which the highest value of the assets and rights of the individuals (i) are located, (ii) can be exercised or (iii) must be fulfilled.

***Inheritance and Gift Tax***

The transfer of the Common Shares to individuals by inheritance, legacy or donation shall be subject to the general rules of Inheritance and Gift Tax in accordance with the applicable Spanish rules even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT signed by Spain.

The effective tax rate, after applying all relevant factors, ranges between 0 per cent. and 81.6 per cent.

However, the recent judgment from the European Court of Justice dated 3rd September, 2014 (Case C-127/12) has declared that Spanish Inheritance Tax Act is against the principle of free movement of capital within the EU as Spanish residents are granted tax benefits that, in practice, allow them to pay much lower taxes than non-residents. According to Law 26/2014, of 27th November, it will be possible to apply tax benefits approved in some Spanish regions to residents either in the EU or in the EEA following specific rules.

Moreover, the Spanish Supreme Court in its recent judgments dated 19th February, 2018, 21 March, 2018 and 22nd March, 2018 has declared that the application of state regulations when the deceased, heir or donee is resident outside of a Member State of the EU or the EEA violates Community law to the free movement of capital, so even in that case it would be appropriate to defend the application of regional regulations in the same cases as if the deceased, heir or donee was resident in a Member State of the EU or the EEA. The General Directorate for Taxation has recently ruled in accordance with those judgements (V3151-18 and V3193-18).

In the event that the beneficiary is an entity other than a natural person, the income obtained shall be subject to Corporate Income Tax or Non-Resident Income Tax, as the case may be, and without prejudice, in the latter event, to the provisions of any DTT that may apply.

### ***Individuals with Tax Residency in Spain***

#### **Personal Income Tax**

##### (i) Taxation of dividends

According to the PIT Law the following, amongst others, must be treated as gross capital income: income received by a Spanish shareholder in the form of dividends, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the shares and any other income received in his position as shareholder.

Gross capital income is reduced by any administration and custody expenses (but not by those incurred in individualized portfolio management); the net amount is included in the relevant Spanish shareholder's savings taxable base at the applicable rate (currently varying from 19 per cent. to 23 per cent.).

The payment to Spanish shareholders of dividends or any other distribution will be generally subject to a withholding tax at the then-applicable rate (currently set at 19 per cent.). Such withholding tax is creditable from the PIT payable; if the amount of tax withheld is greater than the amount of the net PIT payable, the taxpayer is entitled to a refund of the excess withheld in accordance with the PIT Law.

##### (ii) Taxation of capital gains

Gains or losses recorded by a shareholder subject to PIT as a result of the transfer of ordinary shares qualify for the purposes of the PIT Law as capital gains or losses and are subject to taxation according to the general rules applicable to capital gains. The amount of capital gains or losses is equal to the difference between the shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the listed value of the shares as of the transfer date or, if higher, the agreed transfer price, less any fees or taxes incurred.

Capital gains or losses arising from the transfer of shares held by a Spanish shareholder are included in such Spanish savings taxable base at the applicable rate (currently varying from 19 per cent. to 23 per cent.).

Capital gains arising from the transfer of shares are not subject to withholding tax on account of PIT. Losses arising from the transfer of ordinary shares admitted to trading on certain official stock exchanges will not be treated as capital losses if ordinary shares of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses are included in the taxable base upon the transfer of the remaining ordinary shares by the taxpayer.

#### **Wealth Tax**

Individuals with tax residency in Spain are currently subject to Wealth Tax to the extent that their net worth exceeds €700,000, without prejudice to any exemption which may apply and the laws and regulations in force in each Autonomous Region, at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., on the value of the relevant securities which they hold as at the end of 2019.

In accordance with Article 3 of Royal Decree-Law 27/2018, approved on 28 December 2018, the full exemption from this tax has been revoked for 2019.

#### **Inheritance and Gift Tax**

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any relevant securities by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The effective tax rates currently range between 0 per cent. and 81.6 per cent., depending on relevant factors.

### ***Legal Entities with Tax Residency in Spain***

#### **Corporate Income Tax**

##### **(i) Taxation of dividends**

Dividends from BBVA received by corporate Spanish shareholders, less any expenses inherent to holding the Common Shares, must be included in the CIT taxable base. The general CIT tax rate is 25 per cent.

Dividends in respect of the shares obtained by the shareholders that (i) hold, directly or indirectly, at least 5 per cent. in the issuer's stock or have a tax acquisition cost in the Common Shares higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant distribution date or commits to hold the participation for the time needed to complete such one-year holding period, may be exempt from CIT on that dividend as a general rule.

In case the conditions to apply this exemption applies to the relevant shareholder, and provided that the minimum one year holding period requirement is complied with on the distribution date in respect of the Common Shares, dividends will not be subject to withholding tax. Otherwise, dividends will be taxed at the applicable CIT tax rate of the taxpayer and a withholding will apply (currently set at 19 per cent.). This CIT withholding will be credited against the taxpayer's annual CIT due, and if the amount of tax withheld is greater than the amount of the annual CIT due, the taxpayer will be entitled to a refund of the excess withheld.

##### **(ii) Taxation of capital gains**

Gains or losses arising from the sale of the Common Shares by a shareholder that is a Spanish CIT taxpayer must be included in its taxable base. The general CIT tax rate is 25 per cent. Gains arising from the sale of the Common Shares will not be subject to withholding tax on account of CIT.

For CIT payers that (i) hold, directly or indirectly, at least 5 per cent. in the issuer's stock or have a tax acquisition cost higher than €20 million; and (ii) hold such participation for at least one year prior to the relevant transfer, capital gains will be exempt from CIT as a general rule. Otherwise, capital gains will be taxed at the CIT rate applicable to the relevant taxpayer.

CIT payers are urged to consult their tax advisers regarding compliance of the requirements for application of the aforesaid participation exemption.

Capital gains deriving from the disposal of the Common Shares will not be subject to withholding tax on account of CIT.

#### **Wealth Tax**

Legal entities are not subject to Wealth Tax.

#### **Inheritance and Gift Tax**

Legal entities resident in Spain for tax purposes (and NRIT taxpayers acting through a permanent establishment in Spain, as described below) which acquire ownership or other rights over the Common Shares by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax.

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)**

On 14th February, 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common 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 the Preferred Securities (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 of the participating Member States. Generally, it would apply to certain dealings in the Preferred 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 between 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.

The Spanish council of ministers approved the Bill on the Financial Transaction Tax, during a meeting held on January 18, 2019. The Bill proposes an indirect tax amounting to 0.2 per cent. to be charged on transactions for purchasing shares in Spanish companies for valuable consideration, regardless of the residence of the participants in the transactions, provided they are listed companies and the company's market capitalisation is above €1,000 million. If the Bill is finally approved in its current terms through the legislative procedure, there is also a risk of the FTT arising on any conversion of the Preferred Securities into Common Shares, as this would be considered as an acquisition of shares subject to the FTT.

Prospective holders of the Preferred Securities are advised to seek their own professional advice in relation to the FTT.

## **SPANISH DIRECT REFUND FROM SPANISH TAX AUTHORITIES**

Beneficial owners entitled to receive income payments in respect of the Common Shares at the reduced withholding tax rate contained in any applicable DTT, but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim any excess amount withheld by the Bank from the Spanish Treasury following the 1st of February of the calendar year following the year in which the relevant payment date takes place, and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership, and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

For further details, prospective Holders should consult their tax advisers.

## **U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT WITHHOLDING**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Preferred Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Preferred Securities, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining “foreign passthru payments”. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Preferred Securities.

## SUBSCRIPTION, SALE AND TRANSFER

The Managers have, pursuant to a subscription agreement dated 20th March, 2019 (the **Subscription Agreement**), agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the Liquidation Preference of the Preferred Securities, less the agreed commissions (the **Purchase Price**) and (in the case of Banco Bilbao Vizcaya Argentaria, S.A., exclusively in its capacity as a Joint Bookrunner) to procure subscribers for the Preferred Securities at the issue price of 100 per cent. The Bank has also agreed to reimburse the Managers in respect of certain of its expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Purchase Price to the Bank.

### United States

The Preferred Securities and the Common Shares to be issued and delivered in the event of any Conversion have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Capitalised terms used in this paragraph have the meanings given to them under Regulation S.

The Preferred Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the **distribution compliance period**) within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Preferred Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### Prohibition of Sales to EEA Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Preferred Securities to any retail investor in the EEA.

For these purposes:

- (i) the expression “retail investor” means a person who is one (or more) of the following:
  - (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

- (b) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (ii) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Preferred Securities to be offered so as to enable an investor to decide to purchase or subscribe the Preferred Securities.

## Spain

Each of the Managers has represented and agreed that:

- (a) the Preferred Securities may not be offered or sold in Spain other than by institutions authorised under the LMV (and related legislation) to provide investment services in Spain, and as agreed between the Bank and the Managers; and
- (b) offers of the Preferred Securities in Spain shall only be directed specifically at or made to professional clients (*clientes profesionales*) as defined in Article 205 of the LMV or eligible counterparties (*contrapartes elegibles*) as defined in Articles 203 and 207 of LMV.

## United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

## Italy

Each of the Managers has acknowledged that the offering of the Preferred Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Preferred Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Preferred Securities be distributed in Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, as amended (the Financial Services Act) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14th May, 1999, as amended from time to time (Regulation No. 11971); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Preferred Securities or distribution of copies of this Prospectus or any other document relating to the Preferred Securities in Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29th October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1st September, 1993, as amended (the **Banking Act**); and

- (ii) in compliance with Article 129 of the Banking Act, as amended, (including the applicable reporting requirements) and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

## **Belgium**

Each Manager has represented and agreed that an offering of Preferred Securities may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a **Belgian Consumer**) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Preferred Securities, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Preferred Securities, directly or indirectly, to any Belgian Consumer.

## **Singapore**

Each of the Managers has acknowledged that this Prospectus has not been registered as a prospectus with the MAS and the Preferred Securities will be offered pursuant to exemptions under the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**). Accordingly, each of the Managers has represented and agreed that it has not offered or sold any Preferred Securities or caused the Preferred Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Preferred Securities or cause the Preferred Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Preferred Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Preferred Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contract (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Preferred Securities pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B);
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;



- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

**Notice of Product Classification by the Bank under Section 309B(1)(c) of the SFA** – In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the **CMP Regulations 2018**), the Bank has determined the classification of the Preferred Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **Hong Kong**

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Preferred Securities other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Preferred Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Preferred Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## **Switzerland**

Each Manger has acknowledged that the Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Preferred Securities. Accordingly, each of the Managers has represented and agreed that it has not publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland any Preferred Securities and that the Preferred Securities may not be and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Preferred Securities constitutes an issue prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss code of obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or a simplified prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Prospectus nor any other offering or marketing material relating to the Preferred Securities may be publicly distributed or otherwise made publicly available in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the offering, nor the Bank nor the Preferred Securities have been or will be filed with or approved by any Swiss regulatory authority. The Preferred Securities are not subject to the supervision by the Swiss Financial Markets Supervisory Authority (**FINMA**), and investors in the Preferred Securities will not benefit from protection or supervision by FINMA.

## **Canada**

The Preferred Securities are not and will not be qualified by prospectus for sale under the securities laws of any province or territory of Canada. No offer, sale or distribution of the Preferred Securities has been or will be made by Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner). The Managers has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Preferred Securities, directly or indirectly, in Canada other than pursuant to an exemption from the prospectus requirements of Canadian securities laws and in compliance with the dealer registration requirements of Canadian securities laws or an exemption therefrom. Each Manager has also represented and agreed that it has not and will not distribute or deliver the Prospectus, or any other offering material in connection with any offering of Preferred Securities in Canada, other than in compliance with the applicable securities laws.

## **General**

No action has been taken by the Bank or any of the Managers that would, or is intended to, permit a public offer of the Preferred Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Preferred Securities or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Preferred Securities by it have been and will be made on the same terms.

## ADDITIONAL INFORMATION

1. The creation and issue of the Preferred Securities has been authorised by (i) the shareholders' meeting (*Junta General Ordinaria de Accionistas*) of the Bank, held on 17th March, 2017 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 31st January, 2019.
2. Except as disclosed in the section entitled "*Description of Banco Bilbao Vizcaya Argentaria, S.A – Legal Proceedings*" on pages 108 to 109, none of the Bank or any of the Bank's subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank or any of the Bank's subsidiaries is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Bank or the Group.
3. There has been no significant change in the financial or trading position of the Bank and its subsidiaries since 31st December, 2018 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries since 31st December, 2018.
4. For so long as any of the Preferred Securities are outstanding, physical copies of the following documents (together with English translations, where applicable) may be obtained, free of charge, from the Bank at Calle Azul, 4, 28050 Madrid:
  - (a) the corporate bylaws (*estatutos sociales*) of the Bank (with an English translation thereof);
  - (b) the audited stand-alone and consolidated financial statements of the Bank and the Group respectively as at, and for the years ending, 31st December 2018, 31st December, 2017 and 31st December, 2016; and
  - (c) this Prospectus.
5. The Bank publishes quarterly unaudited consolidated interim financial statements which are available at [www.cnmv.es](http://www.cnmv.es) and [www.bbva.com](http://www.bbva.com). The Bank does not publish unconsolidated interim financial statements.
6. The Bank does not intend to provide any post-issuance information in relation to the issue of the Preferred Securities.
7. The current auditors of the Group, KPMG Auditores, S.L. (registered as auditors on the *Registro Oficial de Auditores de Cuentas*), audited (i) the Bank's stand-alone financial statements (which have been prepared in accordance with Spanish GAAP) for the financial years ended 31st December, 2017 and 2018 (ii) the Group's consolidated financial statements (which have been prepared in accordance with EU-IFRS and other provisions of the financial reporting framework applicable in Spain) for the financial years ended 31st December, 2017 and 2018.


Deloitte, S.L. (registered as auditors on the *Registro Oficial de Auditores de Cuentas*) audited the Bank's stand-alone financial statements (which have been prepared in accordance with Spanish GAAP) and the Group's consolidated financial statements (which have been prepared in accordance with EU-IFRS) for the financial year ended 31st December, 2016.
8. The expenses related to the admission of the Preferred Securities are estimated to be the following: (i) €60,500 with respect to charges and fees of AIAF and Iberclear; and (ii) €71,407 with respect to fees of CNMV.

9. This Prospectus has been approved by the CNMV in its capacity as competent authority under the Prospectus Directive and LMV. Application has been made for the Preferred Securities to be admitted to listing and trading on AIAF, which is a regulated market for the purposes of MiFID II. If a qualified investors platform is to be developed by AIAF, it is the intention of the Bank for the Preferred Securities to be quoted on such platform. The Preferred Securities may also be admitted to listing and/or trading on any other secondary market as may be agreed by the Bank.
10. All payments under the Conditions will be made directly by the Bank through Iberclear, which has its registered office at Plaza de la Lealtad, 1, 28014 Madrid, Spain.
11. The yield on the Preferred Securities until the First Reset Date is 6.00 per cent. per annum (on the basis of quarterly distribution payments), which is equivalent to a yield of 6.136 per cent. per annum (on the basis of an annual distribution payment).
12. In the opinion of the Bank, its working capital is sufficient for the Bank's present requirements.
13. The Common Shares are (i) in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) issued under Spanish Law and registered with Iberclear; (ii) listed on the Spanish Stock Exchanges, which are regulated markets for the purposes of MiFID II; and (iii) quoted on the Automated Quotation System – Continuous Market (*SIBE – Sistema de Interconexión Bursátil Español – Mercado Continuo*) of the Spanish Stock Exchanges. The ISIN for the Common Shares is ES0113211835. Information about the past and future performance of the Common Shares and their volatility can be obtained from the respective websites of each of the Spanish Stock Exchanges at [www.bolsamadrid.es](http://www.bolsamadrid.es), [www.borsabcn.es](http://www.borsabcn.es), [www.bolsavalencia.es](http://www.bolsavalencia.es) and [www.bolsabilbao.es](http://www.bolsabilbao.es).
14. The Managers, and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business. Save as discussed in “*Subscription, Sale and Transfer*”, so far as the Bank is aware, no person involved in the offer of the Preferred Securities has an interest material to the offer.
15. The Bank and the undersigned, Mr. Antonio Borraz Peralta, in his capacity as Assets and Liabilities Management Director – Treasurer of the Bank and acting under a special power of attorney granted by the Board of Directors of the Bank, accept responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

## SIGNATURE

In witness to his knowledge and approval of the contents of this Prospectus drawn up according to Annexes I, III (sections 3.1 and 3.2), XIII and XIV of Commission Regulation (EC) No. 809/2004 of 29th April, 2004, it is hereby signed by Antonio Borraz Peralta, Assets and Liabilities Management Director – Treasurer of the Bank, in Madrid, on 29th March, 2019.

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ANTONIO  
JOAQUIN  
BORRAZ (R:  
A48265169)



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por 29100035K  
ANTONIO JOAQUIN  
BORRAZ (R: A48265169)  
Fecha: 2019.03.22  
10:57:23 +01'00'

**BANK**

**Banco Bilbao Vizcaya Argentaria, S.A.**

Calle Azul, 4  
28050, Madrid  
Spain

**MANAGERS**

**Banco Bilbao Vizcaya Argentaria, S.A.**

One Canada Square, 44th floor  
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United Kingdom

**Bankinter S.A.**

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**BNP Paribas**

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United Kingdom

**Citigroup Global Markets Limited**

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Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Crédit Agricole Corporate and Investment  
Bank**

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CS 70052 – 92547 Montrouge Cedex  
France

**Deutsche Bank AG, London Branch**

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1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**LEGAL ADVISERS**

*To the Bank  
as to the laws of England and Wales*

**Allen & Overy LLP**

One Bishops Square  
London E1 6AD  
United Kingdom

*To the Bank  
as to the laws of Spain*

**J&A Garrigues, S.L.P.**

Calle Hermosilla, 3  
28001 Madrid  
Spain

*To the Managers  
as to the laws of England and Wales and as to the laws of Spain*

**Linklaters, S.L.P.**

Calle Almagro, 40  
28010 Madrid  
Spain

**AUDITORS**

*To the Bank*

**Deloitte, S.L.**  
Plaza Pablo Ruiz Picasso, 1  
Torre Picasso  
28020 Madrid  
Spain

**KPMG Auditores, S.L.**  
Paseo de la Castellana, 259C  
28046 Madrid  
Spain

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