

## IMPORTANT NOTICE

**THIS OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S (*REGULATION S*) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE *SECURITIES ACT*)) AND ARE OUTSIDE OF THE UNITED STATES.**

**THIS OFFERING CIRCULAR MAY FURTHER NOT BE DISTRIBUTED, AND NO PUBLICITY OF ANY KIND SHALL BE MADE, IN SPAIN. THE PREFERRED SECURITIES MUST NOT BE OFFERED, DISTRIBUTED OR SOLD IN SPAIN OR TO SPANISH RESIDENTS AND ANY SALE, TRANSFER OR ACQUISITION OF PREFERRED SECURITIES TO OR BY SPANISH RESIDENTS IS FORBIDDEN IN ALL CASES. ANY TRANSFER OF PREFERRED SECURITIES TO OR BY SPANISH RESIDENTS IS NOT PERMITTED AND SUCH TRANSFER WILL BE CONSIDERED NULL AND VOID BY THE BANK. ACCORDINGLY, THE BANK WILL NOT RECOGNISE ANY SPANISH RESIDENT AS A HOLDER OR BENEFICIAL OWNER OF PREFERRED SECURITIES FOR ANY PURPOSE.**

**IMPORTANT:** You must read the following notice before continuing. The following notice applies to the attached offering circular following this notice (the **Offering Circular**), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Circular. In reading, accessing or making any other use of the Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Offering Circular, including any modifications made to them from time to time, each time you receive any information from Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) as a result of such access.

**RESTRICTIONS:** NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE PREFERRED SECURITIES OR ANY COMMON SHARES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. 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 WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE PREFERRED SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FORM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THIS OFFERING CIRCULAR IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THIS OFFERING CIRCULAR AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS FALLING WITHIN ARTICLE 12, ARTICLE 19(5) OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR TO OTHER PERSONS TO WHOM THIS OFFERING CIRCULAR MAY OTHERWISE BE DISTRIBUTED WITHOUT CONTRAVENTION OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, OR ANY PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

**In addition to the above prohibition on the sale of the Preferred Securities in Spain or to Spanish residents, the Preferred Securities are not intended to be sold and should not be sold to retail clients**

**in any other jurisdiction of the EEA, as defined in the rules set out in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed “*Restrictions on marketing and sales to retail investors*” on pages 3 and 4 of this Offering Circular for further information.**

**CONFIRMATION OF YOUR REPRESENTATION:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the Preferred Securities described herein, each prospective investor in respect of the Preferred Securities must not be in Spain or a Spanish resident or a retail client in any other jurisdiction of the EEA and must be a person other than a U.S. Person outside the United States. By accessing, reading or making any other use of the Offering Circular, you shall be deemed to have represented to the Joint Bookrunners (as defined in the Offering Circular) that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) not in Spain or a Spanish resident and a person other than a retail client in any other jurisdiction of the EEA or a U.S. Person outside the United States, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is not located in Spain or the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) you consent to delivery by electronic transmission, (4) you will not transmit the attached Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Bookrunners and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Preferred Securities.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular, electronically or otherwise, to any other person and in particular to any person in Spain or Spanish resident or to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Bookrunners or any affiliate of the Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Bookrunners or such affiliate on behalf of the Bank in such jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Preferred Securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Preferred Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this Offering Circular.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Bookrunners, the Bank or any affiliate of either of them, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

**The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Joint Bookrunners and the Bank to inform themselves about, and to observe, any such restrictions.**

Offering Circular dated 11th February, 2015



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

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

**Series 3 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible**

**Perpetual Preferred Tier 1 Securities**

**Issue price: 100 per cent.**

The Series 3 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference each (the **Preferred Securities**) are being issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) on 18th February, 2015 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Group** or as **BBVA**.

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) 18th February, 2020 (the **First Reset Date**) at the rate of 6.750 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 6.604 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 18th May, 18th August, 18th November and 18th February 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 any 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) and otherwise in accordance with Applicable Banking Regulations 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 if there is a Capital Event or a Tax Event (each as defined in the Conditions), subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force.

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 that it deems necessary or desirable and for any reason, including as further provided in Condition 3. 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), whether or not any future Distributions on the Preferred Securities are paid. For further information, see Condition 3.

**In the event of the occurrence of the Trigger Event (as defined in the Conditions), 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 of the Bank, Holders will be entitled to receive (subject to the limitations described under “Conditions of the Preferred Securities”), 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 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 are expected, upon issue, to be assigned a Ba2 rating by Moody's Investors Services España, S.A. (**Moody's**) and a BB rating by Fitch Ratings España SAU (Fitch Ratings) (**Fitch**). Each of Moody's 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.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

**An investment in the Preferred Securities involves certain risks. For a discussion of these risks see “Risk Factors” beginning on page 7.**

This Offering Circular does not comprise a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended. Application has been made to the Irish Stock Exchange plc (the **Irish Stock Exchange**) for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange. This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange.

**The Preferred Securities must not be offered, distributed or sold in Spain, or to Spanish Residents (as defined in the Conditions). In addition, neither this Offering Circular nor any other document or materials in relation to the Preferred Securities shall be distributed in Spain and no publicity of any kind shall be made in Spain. Any sale, transfer or acquisition of Preferred Securities to or by Spanish Residents is forbidden in all cases. See “Subscription, Sale and Transfer - Spain”.**

**In addition to the above prohibition on the sale of the Preferred Securities in Spain or to Spanish Residents, the Preferred Securities are not intended to be sold and should not be sold to retail clients in any other jurisdiction of the EEA, as defined in the rules set out in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed “Restrictions on marketing and sales to retail investors” on pages 3 and 4 of this Offering Circular for further information.**

The Preferred Securities and any Common Shares to be issued and delivered in the event of any Conversion have not been, and will not be, registered under the United States Securities Act of 1933 (the **Securities Act**) and are subject to United States tax law requirements. The Preferred Securities are being offered outside the United States in accordance with Regulation S under the Securities Act (**Regulation S**), 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**Global Coordinators, Structuring Advisors and Joint Bookrunners**

**Citigroup**

**UBS Limited**

**Joint Bookrunners**

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

**Barclays**

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(no underwriting commitment)

*The Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

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

*Citibank International Limited and UBS Limited (together, the **Global Coordinators, Structuring Advisors and Joint Bookrunners**), Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner) and Barclays Bank PLC (together with the **Global Coordinators, Structuring Advisors and Joint Bookrunners**, the **Joint Bookrunners**) 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 Joint Bookrunners or any of them as to the accuracy or completeness of the information contained in this Offering Circular 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 Offering Circular 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 Joint Bookrunners.*

*Neither the delivery of this Offering Circular 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 Offering Circular.*

*None of the Joint Bookrunners 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 Offering Circular 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 Joint Bookrunners 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 Joint Bookrunners or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this Offering Circular.*

*The Joint Bookrunners are acting exclusively for the Bank and no one else in connection with any offering of the Preferred Securities. The Joint Bookrunners will not regard any other person (whether a recipient of this Offering Circular 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 Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, by or on behalf of the Bank or the Joint Bookrunners any Preferred Securities.*

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

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*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 Offering Circular, 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; and references to **\$**, **U.S. dollars** or **U.S.\$** are to the currency of the United States.*

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

*This Offering Circular 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 and the specified office set out below of each Paying Agent (as defined in the Conditions).*

*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 Offering Circular 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 Offering Circular, it should obtain independent professional advice.*

#### ***Restrictions 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.*

*In particular, in August 2014, the U.K. Financial Conduct Authority (the **FCA**) published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the **TMR**) which took effect on 1st October, 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the **TMR Rules**), certain contingent write-down or convertible securities, such as the Preferred Securities, must not be sold to retail clients in the EEA and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules. The Preferred Securities are further subject to the below prohibition on the sale of the Preferred Securities in Spain or to Spanish Residents.*

*Each of the Issuer and the Joint Bookrunners are required to comply with the TMR Rules. By purchasing, or making or accepting an offer to purchase, any Preferred Securities from the Issuer and/or any Joint Bookrunners, each prospective investor will be deemed to represent, warrant, agree with and undertake to the Issuer and each of the Joint Bookrunners that:*

- (a) it is not a Spanish Resident or a retail client in any other jurisdiction of the EEA (as defined in the TMR Rules);*

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- (b) *whether or not it is subject to the TMR Rules, it will not sell or offer the Preferred Securities in Spain or to any Spanish Resident or retail clients in any other jurisdiction of the EEA or do anything (including the distribution of this Offering Circular) that would or might result in the buying of the Preferred Securities or the holding of a beneficial interest in the Preferred Securities by any Spanish Resident or a retail client in any other jurisdiction of the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale of or offer to sell Preferred Securities to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale of or offer to sell Preferred Securities to a retail client in any EEA member state other than Spain or the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Preferred Securities and is able to bear the potential losses involved in an investment in the Preferred Securities and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (MiFID) to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; 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, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities 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 from the Issuer and/or the Joint Bookrunners, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.*

## **PRESENTATION OF FINANCIAL INFORMATION**

### **ACCOUNTING PRINCIPLES**

BBVA maintains its financial books and records and prepares its consolidated financial statements in euro in accordance with the International Financial Reporting Standards endorsed by the European Union (hereafter, **EU-IFRS**), required to be applied under the Bank of Spain Circular 4/2004 of 22nd December, 2004 (as amended thereafter) and with any other legislation governing financial reporting applicable to the Group.

### **STABILISATION**

In connection with the issue of the Preferred Securities, UBS Limited 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, there is no assurance that the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) will undertake stabilisation action. 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 be ended 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.

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## **FINANCIAL INFORMATION**

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

- Unless otherwise stated, any reference to loans refers to both loans and advances.
- Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received in the period in which they are due.
- Financial information with respect to subsidiaries may not reflect consolidation adjustments.
- Certain numerical information in this Offering Circular may not sum due to rounding. In addition, information regarding period-to-period changes is based on numbers which have not been rounded.



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## SPANISH TAX RULES

Article 44 of Royal Decree 1065/2007 of 27th July (**RD 1065/2007**), as amended by Royal Decree 1145/2011 of 29th July (**RD 1145/2011**), 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 of 26th June, on Organisation, Supervision and Solvency of Credit Entities (**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 Offering Circular for the provision of information required by Spanish law and regulation is a summary only. None of the Bank or the Joint Bookrunners assume any responsibility therefor.

### **NO HOLDING OF PREFERRED SECURITIES BY SPANISH RESIDENTS**

Any sale, transfer or acquisition of Preferred Securities to or by Spanish Residents is forbidden in all cases. Any transfer of Preferred Securities to or by Spanish Residents is not permitted and such transfer will be considered null and void by the Bank. Accordingly, the Bank will not recognise any Spanish Resident as a holder or beneficial owner of Preferred Securities for any purpose.



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## 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.*

*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 Offering Circular 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**

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

The financial services industry is among the most highly regulated industries in the world. The Bank's operations are subject to on-going regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the European Union, the United States and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector which the Bank expects to continue for the foreseeable future. As a result, the Bank may further be subject to an increasing incidence or amount of liability or regulatory sanctions and may be required to make greater expenditures and devote additional resources to address potential liability. The regulations which most significantly affect the Bank, or which could most significantly affect the Bank in the future, include regulations relating to capital and provisions requirements, which have become increasingly more strict in the past three years, steps taken towards achieving a fiscal and banking union in the European Union, and regulatory reforms in the United States. These risks are discussed in further detail below.

In addition, the Bank is subject to substantial regulation relating to other matters such as liquidity. The Bank considers that 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 the Bank's net interest margin.

The Bank is also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

Moreover, the Bank's regulators, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognise further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition.

## RISK FACTORS

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In particular, the latest Spanish regulatory developments include (i) Royal Decree-Law 2/2012, of 3rd February and Law 8/2012 of 30th October, which increased coverage requirements to be met by 31st December, 2012 for performing and non-performing real estate assets, (ii) Law 9/2012, of 14th November (**Law 9/2012**) which established a new regime on restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of restructuring and resolution processes, which was based on the June 2012 draft of Directive 2014/59/EU, of 15th May, establishing a framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**), and (iii) Royal Decree-Law 14/2013, of 29th November (**RD-L 14/2013**) and Law 10/2014, which largely incorporated the CRD IV Directive into Spanish law, although certain regulatory developments in this area are still pending as at the date of this Offering Circular which are expected to include at least one further Royal Decree (various drafts of which have been made public throughout 2014 and now 2015) and several circulars of the Bank of Spain. Further, on 1st December, 2014 the Spanish Ministry of Economy and Competitiveness published for public consultation a first draft of the proposed law (*anteproyecto de ley*) on the restructuring and resolution of credit institutions and investment firms (the **BRRD Draft Implementation Law**), which provides for the implementation of the BRRD in Spain. The latest draft of the BRRD Draft Implementation Law was made public on 26th January, 2015. It is expected that once the BRRD Draft Implementation Law is approved and enters into force, it will implement the BRRD and will repeal and replace Law 9/2012 to reflect such implementation.

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 Bank's business, results of operations and financial condition. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulations, could adversely affect the Bank's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulations.

### ***Capital requirements***

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges.

As a Spanish financial institution, the Bank is subject to CRD IV, through which the European Union began implementing the Basel III capital reforms from 1st January, 2014, with certain requirements in the process of being phased in until 1st January, 2019. The core regulation in the solvency of credit entities is, therefore, the CRR, which is complemented by several binding technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of the CRD IV Directive into Spanish law has largely taken place through RD-L 14/2013 and Law 10/2014, and a new Bank of Spain Circular 2/2014, of 31st January. Notwithstanding this, further regulatory developments in this area remain pending as at the date of this Offering Circular as set out above.

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

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 European Central Bank (the **ECB**) concerning policies relating to the prudential supervision of credit institutions (the **SSM Regulation**), also contemplate that in addition to the minimum "Pillar 1" capital requirements, supervisory authorities may impose further "Pillar 2" capital requirements to cover other risks, including those not considered to be fully captured by the minimum "own funds" requirements under CRD IV or to address macro-prudential considerations. This may result in the imposition of additional own funds requirements on the Bank and/or the Group pursuant to this "Pillar 2" framework. Any failure by the Bank and/or the Group to maintain its "Pillar 1" minimum regulatory capital ratios, any "Pillar 2" additional own funds requirements and/or any buffer capital

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requirements (as discussed below) could result in administrative actions or sanctions, which, in turn, may have a material adverse impact on the Group's results of operations.

The ECB is currently undertaking an assessment of the additional "Pillar 2" capital requirements that may be imposed for each of the European banking institutions now subject to the Single Supervisory Mechanism (the SSM). The ECB is required to carry out these assessments under CRD IV at least on an annual basis. See further *"Steps taken towards achieving an EU fiscal and banking union"* below. There can be no assurance that an additional own funds requirement for the Bank and/or the Group may not be required by the ECB either when it provides its final decision in relation to this initial assessment or at any time in the future. Any additional own funds requirement that may be imposed on the Bank and/or the Group by the ECB pursuant to this initial assessment may require the Bank and/or the Group to hold capital levels similar to, or higher than, those required under the full application of CRD IV and potentially could be in line with earlier applicable minimum capital ratios required pursuant to the EBA recommendation of 22nd July, 2013 and *capital principal* requirements under Royal Decree-Law 2/2011 of 18th February (as amended subsequently by Law 9/2012). There can also be no assurance that the Group will be able to continue to maintain such capital ratios.

Any failure to maintain any additional capital requirements pursuant to the "Pillar 2" framework or any other capital requirements to which the Bank and/or the Group is or becomes subject (including the "combined buffer requirement"), may result in the imposition of restrictions on "discretionary payments" by the Bank as discussed below and the possible cancellation of Distributions on the Preferred Securities (in whole or in part). It could also result, among other things, in the imposition of further "Pillar 2" requirements and early intervention by resolution authorities pursuant to the BRRD.

In addition to the above, the EBA published on 19th December, 2014 its final guidelines for common procedures and methodologies in respect of its supervisory review and evaluation process (SREP). Included in this were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional own funds requirements to be implemented by 1st January, 2016. Under these guidelines, national supervisors should set a composition requirement for the additional own funds requirements to cover certain specified risks of at least 56 per cent. CET1 capital and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements; and, accordingly, the above "combined buffer requirement" (as further discussed under *"CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions"* below) is in addition to the minimum own funds requirement and to the additional own funds requirement.

In this regard, according to Law 10/2014, for those entities not meeting the "combined buffer requirement" or the "Pillar 2" capital requirements described above or where a restriction upon "discretionary payments" (as outlined below) has been imposed pursuant to Article 68 of Law 10/2014 distributions relating to CET1 capital, variable remuneration or discretionary pension revenues and distributions relating to additional tier 1 capital may be subject to restrictions until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain (and thereafter subject to such Maximum Distributable Amount). The criteria for the calculation of the Maximum Distributable Amount in respect of any such "discretionary payments" are expected to be specified in the regulation developing Law 10/2014.

See further *"CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions"* below.

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

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

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

The FSB has proposed that a single specific minimum "Pillar 1" TLAC requirement will be set at the greater of (a) 16 per cent. to 20 per cent. of risk weighted assets and (b) twice the amount of capital required to meet the relevant Basel III Tier 1 leverage ratio requirement (i.e. if the leverage ratio were set at 3 per cent. for G-SIBs, at least 6 per cent. of the leverage ratio denominator). However, the final proposed TLAC amount has not been agreed within the FSB and is the subject of a quantitative impact study, expected to be completed in 2015. The final requirements are expected to be announced in 2015, most probably at the FSB's plenary session in November 2015.

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

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

There can be no assurance as to the relationship between the above "Pillar 2" additional own funds requirements, the TLAC requirement, MREL, the above "combined buffer requirement" and the restrictions on "discretionary payments" discussed above. There can also be no assurance as to how and when effect will be given to the above guidelines of the EBA in Spain, including as to the

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consequences for an institution of its capital levels falling below those necessary to meet these requirements.

Basel III implementation differs across jurisdictions in terms of timing and the applicable rules. For example, the Mexican government introduced the Basel III capital standards in 2012 and Basel III implementation in the United States will be effective in 2015 for credit institutions with total consolidated assets of less than US\$250 million. Proposals for the different additional capital requirements that may be imposed such as the Consultative Document in relation to the imposition of TLAC requirements upon G-SIBs, also provide for different capital requirements for different institutions even though those institutions may be direct competitors in the relevant markets in which they operate. This lack of uniformity in implemented rules may lead to an uneven playing field and to competition distortions. Moreover, a lack of regulatory coordination, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect a bank with global operations such as the Bank and could undermine its profitability.

Finally, there can be no assurance that the implementation of the above capital requirements will not adversely affect the Bank's ability to pay Distributions on the Preferred Securities or result in the cancellation of such Distributions (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.

### *Tax treatment of deferred tax assets following the implementation of CRD IV*

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

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

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

There can be no assurance that the tax amendments implemented by RD-L 14/2013 and Law 27/2014 will not be challenged by the European Commission, that the final interpretation of these amendments will not change and that Spanish banks will ultimately be allowed to maintain certain DTAs as regulatory capital. If this regulation is challenged, this may negatively affect the Bank's regulatory capital and therefore its ability to pay dividends or require it to issue additional securities that qualify

as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have a material adverse effect on the Bank's business, financial condition and results of operations.

### *Contributions for assisting in the restructuring of the Spanish banking sector*

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

### *Steps taken towards achieving an EU fiscal and banking union*

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 Single Resolution Mechanism (**SRM**).

The SSM is expected to assist in making the banking sector more transparent, unified and safer. In accordance with the SSM Regulation, the ECB fully assumed its new supervisory responsibilities within the SSM, in particular direct supervision of the 120 largest European banks (including the Bank), on 4th November, 2014. In preparation for this step, between November 2013 and October 2014 the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of Eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures.

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM will result in the direct supervision of 120 financial institutions, including the Bank, and indirect supervision of around 3,500 financial institutions. The new supervisor will be one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that will be part of the SSM. Several steps have already been taken in this regard such as the recent publication of the Supervisory Guidelines and the creation of the SSM Framework Regulation. In addition, this new body will represent an extra cost for the financial institutions that will fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. Regulation (EU) No.



806/2014 of the European Parliament and the Council of the European Union (the **SRM Regulation**), which was passed on 15th July, 2014, and takes legal effect from 1st January, 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The new Single Resolution Board started operating from 1st January, 2015 but it will not fully assume its resolution powers until 1st January, 2016. From that date onwards the Single Resolution Fund will also be in place, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's liabilities has been applied to cover capital shortfalls (in line with the BRRD).

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

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

The process for the implementation of the BRRD in Spain started on 1st December, 2014, with the publication of the BRRD Draft Implementation Law for public consultation by the Spanish Ministry of Economy and Competitiveness. A new version of the BRRD Draft Implementation Law was made public on 26th January, 2015.

In addition, on 29th January, 2014, the European Commission released its proposal on the structural reforms of the European banking sector that will impose new constraints on the structure of European banks. The proposal aims at ensuring the 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 Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

### ***Regulatory reforms initiated in the United States***

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

in each case subject to certain limited exceptions. The final rules also impose significant compliance and reporting obligations.

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

In addition, the Federal Reserve and other U.S. regulators issued for public comment in October 2013 a proposed rule that would introduce a quantitative liquidity coverage ratio requirement on certain large banks and bank holding companies. The proposed liquidity coverage ratio is broadly consistent with the Basel Committee's revised Basel III liquidity rules, but is more stringent in several important respects. The Federal Reserve has also stated that it intends, through future rulemakings, to apply the Basel III liquidity coverage ratio and net stable funding ratio to the U.S. operations of some or all large FBOs. Although there remains uncertainty as to how regulatory implementation of these laws will occur, various elements of the new laws may cause changes that impact the profitability of the Bank's business activities and require that it changes certain of its business practices, and could expose the Bank to additional costs (including increased compliance costs). These changes may also cause the Bank to invest significant management attention and resources to make any necessary changes.

### ***Taxation of the financial sector***

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

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On 4th July, 2014, Royal Decree-Law 8/2014, of 4th July was introduced in Spain setting forth a tax rate of 0.03 per cent. on bank deposits in Spain. Such tax was established in 2013 (but previously with a 0 per cent. rate) and 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 such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

***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 or cause the Group to take other actions***

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

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

Financial markets reflect, among other matters, the perception of risk, economic conditions and economic policies in their present and short to mid-term future outlooks. Negative growth expectations and lack of confidence that policy changes would solve problems led to steep falls in asset values and a severe reduction in market liquidity in 2012 and 2013 and may occur again in the future. 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. Severe market events such as the 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. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

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

The markets in which the Group operates are highly competitive and the Bank believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the Group must now compete, some of which have recently received public capital from the European Stability Mechanism. Foreign competitors or funds may consider acquiring the institutions which have received such public capital in future auctions, such as occurred with respect to Novagalicia Banco, which was acquired by Banesco, a Venezuelan bank.

The Group also faces competition from non-bank competitors, such as payment platforms; ecommerce businesses; department stores (for some credit products); automotive finance

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corporations; leasing companies; factoring companies; mutual funds; pension funds; insurance companies; and public debt (as a result of the high yields which have recently been offered as a consequence of the sovereign debt crisis, there has been a crowding out effect in the financial markets).

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

### ***The Group'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 its control, including fiscal and monetary policies of governments and central banks, regulation of the financial sectors in the markets in which it operates, domestic and international economic and political conditions and other factors. Changes in market interest rates can affect the interest rates that the Group receives on its interest-earning assets differently to the rates that it pays for its interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income the Group receives, which could have a material adverse impact 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 impact on the Group's business, financial condition or results of operations.

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

The Group's commitments with personnel which are considered to be wholly unfunded are recognised under the heading "Provisions— Provisions for pensions and similar obligations" in its consolidated balance sheets included in the Consolidated Financial Statements (as defined under "*Documents Incorporated by Reference*" below). These amounts, which comprise "Post-employment benefits", "Early retirements" and "Post-employment welfare benefits", are considered wholly unfunded due to the absence of qualifying plan assets.

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

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### ***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 or divestiture because either the Group is not indemnified for such claims or the indemnification is insufficient. These effects could cause the Group to incur significant expenses and could materially adversely affect its business, financial condition, cash flows and results of operations.

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

Due to the nature of the Group's business, the Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in jurisdictions around the world, the financial outcome of which is unpredictable. An adverse outcome or settlement in these proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, cash flows, results of operations and reputation.

In addition, responding to the demands of litigation may divert management's time and attention and financial resources. While the Group believes that it has provisioned such risks appropriately based on the opinions and advice of its legal advisors and in accordance with applicable accounting rules, it is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to the Group, could exceed the amount of provisions made for such risks. See "Item 8. Financial information—Consolidated Statements and Other Financial Information—Legal proceedings" of the 2013 Form 20-F and Note 23 to the Consolidated Financial Statements for additional information on the Group's legal, regulatory and arbitration proceedings.

### **Risks Relating to Spain and Europe**

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

The crisis in worldwide financial and credit markets led to a global economic recession in 2009 from which there has been a slow recovery in recent years, mainly in the most advanced economies. While there has been a significant reduction in risk premiums in Europe since the second half of 2012 and economic growth in Europe was positive from the second quarter of 2013 to the third quarter of 2014, the possibility of future deterioration in the European economic position remains as at the date of this Offering Circular. Any such deterioration could adversely affect the cost and availability of funding for Spanish and European banks, including the Group, and the quality of the Group's loan portfolio, require the Group to take impairments on its exposures to the sovereign debt of one or more countries

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in the Eurozone or otherwise adversely affect the Group's business, financial condition and results of operations.

While the probability of country defaults or rupture of the Eurozone has decreased significantly since 2012, if one or more EU Member States were to exit from the European Monetary Union (the EMU) this 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, any of which could have a material adverse effect on the Group's business, results of operations and financial condition. In addition, tensions among Member States of the EU, and Euro-scepticism in certain EU countries, could pose additional difficulties in the EU's ability to react to an economic crisis.

In addition, the risk of a protracted period of negative inflation in the Eurozone cannot be ruled out, particularly in light of the fall in oil prices since the first half of 2014. If economic conditions in the European Union and Spain deteriorate as a result, this could have a material adverse effect on the Group's business, financial condition and results of operations.

***The Bank is dependent on its credit ratings and any reduction of its or the Kingdom of Spain's credit ratings could materially and adversely affect the Group's business, financial condition and results of operations***

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

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. 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 also adversely affect the value of the Kingdom of Spain's and other 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 rating, 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.

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

The Group has historically developed its lending business in Spain, which continues to be its main place of business. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009.

After rapid economic growth until 2007, Spanish gross domestic product (**GDP**) contracted in the period 2009-10 and 2012-13. GDP grew on an annual basis in 2014 and the Bank's Economic Research Department (**BBVA Research**) estimates that the Spanish economy will maintain this positive trend in the years to come based on a reduction in the accumulated imbalances of the period of expansion, the improvement of external demand and the measures adopted by Spanish and Eurozone authorities in response to the economic crisis, including the structural reforms to foster competitiveness and productivity and the measures to reduce the public deficit. However, should external demand be lower than expected and/or the measures and reforms introduced do not contribute to enhancing competitiveness and productivity and/or policies to increase domestic demand (i.e. fiscal and monetary) fail to support domestic expenditure, the estimated positive scenario for the Spanish economy could be revised downwards.

The effects of the financial crisis were particularly pronounced in Spain given the country's heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (through estimated GDP growth in 2014 of 1.4 per cent.) and the public deficit is diminishing, real or perceived difficulties in making the payments associated with servicing its public or private debt could have negative consequences, causing further damage to Spain's economic situation and increasing its financing costs. The aforementioned risks may be exacerbated by the circumstances referred to below:

- The Spanish economy is particularly sensitive to economic conditions in the rest of the euro area, the main market for Spanish goods and services exports. Accordingly, an interruption in the recovery in the Eurozone might have a considerable impact on Spanish economic growth.
- The positive performance of the Spanish economy relies on policies within the Eurozone which are designed to diminish financial fragmentation (such as the banking and capital markets unions). Changes in the Eurozone policy framework might make access to markets less favourable for the Spanish economy.
- Lastly, a change in the current recovery of the labour market would adversely affect households' gross disposable income.

Given the concentration of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on the Group's business, financial condition and results of operations.

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

After a buoyant period, demand for mortgage loans in Spain began to adjust in mid-2006 but an adjustment in supply of new homes was not seen until the last quarter of 2008. According to the Spanish Ministry of Public Works, at the end of 2013 there was still an excess of unsold homes in the market of approximately 560,000. Spanish real estate prices continued to decline during 2013 in light of deteriorating economic conditions, and have showed only a slight recovery in 2014 (with year-on-year growth of 0.3 per cent. in September 2014 according to the National Statistics Institute of Spain).



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Housing demand continues to recover, with housing transactions increasing by 17.3 per cent. between January and October of 2014 as compared to the same period in 2013.

The Group has substantial exposure to the Spanish real estate market and further deterioration of Spanish real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Spanish real estate market due to the fact that Spanish real estate assets secure many of its outstanding loans and due to the significant amount of Spanish real estate assets held on its balance sheet, including real estate received in lieu of payment for certain underlying loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices.

If Spanish real estate prices fail to sustain their initial recovery, the Group's business may be materially adversely affected, which could materially and adversely affect its financial condition and results of operations.

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

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

### **Risks Relating to Latin America**

#### ***The Group's Mexican operations are material. The Group faces several types of risks in Mexico which could adversely affect its banking operations in Mexico or the Group as a whole***

The Mexican economy has recovered from the 2009 recession but the pace of this recovery remains below the historical average. In addition, drug-related violence remains a significant challenge for Mexico and the drop in oil prices since the first half of 2014 increases uncertainty about the final impact of reforms to be implemented in the Mexican energy sector, one of the key considerations for an improvement in mid-term expectations for the Mexican economy.

The Mexican economy grew by 1.3 per cent. in 2013 and is expected to grow by 2.1 per cent. in 2014. 2013 was characterised by a more acute downturn than originally forecast due to the considerable slowdown in the industrial sector, driven by a decrease in demand from the U.S., weak private domestic demand, and also a contraction in public demand. However, in 2014 there has been a gradual recovery, mainly driven by external demand and public expenditure. Remittances posted 15 consecutive months of growth, increasing by 6.5 per cent. between October 2013 and October 2014.

In the first eleven months of 2014 credit granted to the private sector increased by an average of 4.2 per cent. in real terms, which was less than the average of 6.9 per cent. for the same period in 2013. Delinquency rates on loans have increased in the past three years. If there is an increase in unemployment rates (which were 4.8 per cent. in 2014, 4.9 per cent. in 2013 and 5.0 per cent. in 2012

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and are expected to be 4.7 per cent. in 2015), for example as a result of a more pronounced or prolonged slowdown in Europe or the United States, such rates may increase.

In addition, average inflation was 3.8 per cent. in 2013 and 4.0 per cent. in 2014, exceeding the target set by the Mexican Central Bank of 3 per cent. Any tightening of the monetary policy, including to address upward inflationary pressures, could make it more difficult for customers of the Group's mortgage and consumer loan products in Mexico to service their debts, which could have a material adverse effect on the business, financial condition, cash flows and results of operations of the Bank's Mexican subsidiary or the Group as a whole.

In addition, the Bank's operations are subject to regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Mexico. On 9th January, 2014, certain financial reforms which had been proposed in May 2013 were adopted. Such measures address the following matters (i) the establishment of a new mandate for development banks, (ii) the promotion of competition to reduce interest rates, (iii) the creation of incentives for banks to give more credit and (iv) the strengthening of the banking system.

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

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

Any of the risks referred to above or risks that may result from other adverse developments in laws, regulations, public policies or otherwise in Mexico may adversely affect the business, financial condition, operating results and cash flows of the Bank's Mexican subsidiary or the Group as a whole.

***The Bank's Latin American subsidiaries' growth, asset quality and profitability may be affected by volatile macroeconomic conditions, including government default on public debt, in the Latin American countries where they operate***

The Latin American countries in which the Group operates (which include Argentina, Chile, Colombia, Peru and Venezuela, the Group's five main markets in Latin America) have experienced significant economic volatility in recent decades, characterised by recessions, foreign exchange crises and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which the Group lends. Negative and fluctuating economic conditions, such as a changing interest rate environment, also affect the Group's profitability by causing lending margins to decrease and leading to decreased demand for higher-margin products and services. In addition, significant inflation (such as inflation recently

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experienced by Venezuela and Argentina) and local currency devaluations (such as in Venezuela and Argentina) can negatively affect the Group's results of operations.

The start of the withdrawal of monetary stimuli by the Federal Reserve in the U.S., and the slowing of economic activity in several emerging markets led to an increase in volatility in the international financial markets. Latin America, like other emerging markets, has been one of the hardest hit in this new environment, particularly as Latin America benefited significantly from the increase in liquidity and the expansion in demand by countries such as the People's Republic of China (the **PRC**) in recent years.

Many of the main challenges for the region relate to the evolution of external factors, including the drop in commodity prices due to lower demand from Asia and the impact of an anticipated tightening of monetary policy by the U.S. Federal Reserve, which could diminish the foreign income of and/or deter the entry of financial flows into Latin American economies. 2014 was marked by a significant moderation in household and business expectations, as well as weakness in domestic demand indicators. The weakness in growth has resulted in the region's monetary policies tending toward a more accommodative approach. The ability of Latin American central banks to decouple themselves from any tightening of monetary policy by the Federal Reserve remains uncertain.

In addition, negative and fluctuating economic conditions in some Latin American countries could result in government defaults on public debt. This could primarily affect the Group in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several Latin American countries in which the Group operates.

While the Group seeks to mitigate these risks through what it believes to be conservative risk policies, no assurance can be given that its Latin American subsidiaries' growth, asset quality and profitability will not be further affected by volatile macroeconomic conditions in the Latin American countries in which it operates.

### ***Latin American economies can be directly and negatively affected by adverse developments in other countries***

Financial and securities markets in Latin American countries in which the Group operates are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. Growth in the region has decelerated in 2012 and 2013, registering a growth rate of 3.1 per cent. in 2013 (according to current national accounts). The region is expected to grow by 0.5 per cent. in 2014. The external environment for Latin America has become less favourable. In the real economy, commodity prices are decreasing following lower demand from Asia. On the financial side, Latin America, together with other emerging markets, has been one of the regions hardest hit by the financial uncertainty resulting from the gradual moderation of the expansive monetary policies of the U.S. This has resulted in lowered capital inflows, increases in sovereign spreads, stock market falls and in the depreciation of exchange rates. From a fiscal perspective, the slowdown in demand and the lower prices of export commodities (such as copper and soy bean) will continue to reduce tax revenues.

Negative developments in the economy or securities markets in one country or area, particularly in the U.S., the PRC or in Europe under current circumstances, may have a negative impact on emerging market economies. Among the main global risks for Latin American countries are those currently posed by the effects of the withdrawal of monetary stimuli or tapering (as defined below) in the U.S. by the Federal Reserve and the lower foreign demand of commodities mainly from Asian countries. Any such developments may adversely affect the business, financial condition, operating results and cash flows of the Group's subsidiaries in Latin America. These economies are also vulnerable to

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conditions in global financial markets and especially to commodities price fluctuations, and these vulnerabilities usually reflect adversely in financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. For example, at the beginning of the financial crisis these economies were hit by a simultaneous drop in commodity export prices, a collapse in demand for non-commodity exports and a sudden halting of foreign bank loans. Even though most of these countries withstood the triple shock, with limited damage to their financial sectors, non-performing loan ratios rose and bank deposits and loans contracted. These trends have been corrected in recent months in most countries. As a global economic recovery remains fragile, there are risks of a relapse. If the global financial crisis resumes and, in particular, if the effects on the Chinese, European and U.S. economies intensify, the business, financial condition, operating results and cash flows of the Group's subsidiaries in Latin America are likely to be materially adversely affected.

***The Group is exposed to foreign exchange and, in some instances, political risks as well as other risks in the Latin American countries in which it operates, which could cause an adverse impact on its business, financial condition and results of operations***

The Group operates commercial banks and insurance and other financial services companies in various Latin American countries and its overall success as a global business depends, in part, upon its ability to succeed in differing economic, social and political conditions. The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. 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, and political risk which may be particular to foreign investors, or the distribution of dividends. For instance, the repatriation of dividends paid and the payments of dividends by the Group's Venezuelan and Argentinean subsidiaries need to be approved in advance by the relevant local authorities. Market outlook for the withdrawal of monetary stimuli or tapering in the U.S., together with the risk of an increased slowdown in the PRC, triggered widespread devaluation in exchange rates in the region in 2013.

The Group's presence in Latin American markets also requires it to respond to rapid changes in market conditions in these countries. 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.

***Regulatory changes in Latin America that are beyond the Group's control may have a material effect on its business, financial condition, results of operations and cash flows***

A number of banking regulations designed to maintain the safety and soundness of banks and limit their exposure to risk are applicable in certain Latin American countries in which the Group operates. Local regulations differ in a number of material respects from equivalent regulations in Spain and the United States.

Changes in regulations may have a material effect on the Group's business and operations, particularly in Venezuela and Argentina. In addition, since some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations 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.

### Risks Relating to the United States

***Adverse economic conditions in the United States may have a material effect on the Group's business, financial condition, results of operations and cash flows***

As a result of the business of the Bank's subsidiaries in the United States, the Group is vulnerable to developments in this market, particularly the real estate market. The recent crisis had a significant effect on the real economy and resulted in significant volatility and uncertainty in markets and economies around the world. The U.S. economy is regaining ground with sustained growth of well above 2 per cent. in 2013 and 2014 and unemployment rates falling below 6 per cent. in the last quarter of 2014. However, worsening economic conditions in the United States could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Bank's subsidiary BBVA Compass, or the Group as a whole, and could require the Bank to provide BBVA Compass with additional capital.

### Risks Relating to Turkey

***Since Garanti operates primarily in Turkey, economic, political and other developments (such as exchange rate fluctuations) in Turkey may have a material adverse effect on Garanti's business, financial condition and results of operations***

In 2011, the Bank acquired a 25.01 per cent. interest in Türkiye Garanti Bankası A.Ş. (**Garanti**). On 19th November, 2014, the Bank announced the acquisition of a further 62,538 million shares in Garanti, amounting to an additional 14.89 per cent. of the total issued share capital of Garanti, from Doğu Holding A.Ş. (**Doğu**), Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk. Completion of this acquisition is conditional upon the obtaining of all necessary consents from the relevant regulatory authorities.

Most of Garanti's operations are conducted, and most of its customers are located, in Turkey. Accordingly, Garanti's ability to recover on loans, its liquidity and financial condition and its results of operations are substantially dependent upon the economic, political and other conditions prevailing in or that otherwise affect Turkey. For instance, if the Turkish economy is adversely affected by, among other factors, a reduction in the level of economic activity, continuing inflationary pressures, devaluation or depreciation of the Turkish Lira, a natural disaster or an increase in domestic interest rates, then a greater portion of Garanti's customers may not be able to repay loans when due or meet their other debt service requirements to Garanti, which would increase Garanti's past due loan portfolio and could materially reduce its net income and capital levels.

After growing by approximately 2.2 per cent. in 2012 and 4.1 per cent. in 2013 (according to current national accounts), the estimated Turkish GDP growth rate in 2014 is approximately 2.5 per cent. This slowdown is due to monetary tightening in the first part of the year and the softening of external demand. However, the drop in oil prices since the first half of 2014 has had a positive effect on the Turkish economy, as an oil importing country, by reducing its rate of inflation and current account deficit, and consequently its dependence on foreign inflows of capital. Inflation was 8.7 per cent. in 2012 and 7.5 per cent. in 2013, but accelerated slightly in 2014 up to an annual average of 8.8 per cent. before slowing towards the end of 2014. Turkey is an emerging market located in a region that has been subject to ongoing political and security concerns, such as those arising from the bordering conflict in Syria. As such, Turkey could be subject to greater risks than more developed markets, which may also have an adverse effect on the financial sector. Financial turmoil in any emerging market could negatively affect other emerging markets, including Turkey, or the global economy in general. Moreover, financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets, and may reduce liquidity to companies located in the affected markets. An

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increase in the perceived risks associated with investing in emerging economies in general, or Turkey in particular, could dampen capital flows to Turkey and adversely affect the Turkish economy.

In addition, actions taken by the Turkish government could adversely affect Garanti's business and prospects. For example, currency restrictions and other restraints on transfer of funds may be imposed by the Turkish government, Turkish government regulation or administrative policies may change unexpectedly or otherwise negatively affect Garanti, the Turkish government may increase its participation in the economy, including through nationalisations of assets, or the Turkish government may impose burdensome taxes or tariffs. The occurrence of any or all of the above risks could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti. Moreover, political uncertainty or instability within Turkey and in some of its neighbouring countries (including as a result of the ongoing civil war in Syria) has historically been one of the potential risks associated with investments in Turkish companies.

Furthermore, a significant majority of Garanti's total securities portfolio is invested in securities issued by the Turkish government. In addition to any direct losses that Garanti might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government securities held in Garanti's securities portfolio and the Turkish banking system generally and make such government securities difficult to sell, and may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti.

Any of the risks referred to above could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti.

### ***The Bank has entered into a shareholders' agreement with Doğuş, among other shareholders, in connection with its acquisition of Garanti***

The Bank entered into a shareholders' agreement with Doğuş, Doğuş Nakliyat ve Ticaret A.Ş. and Doğuş Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş. (the **Doğuş Group**), in connection with its acquisition of a 25.01 per cent. interest in Garanti (the **current SHA**). On 19th November, 2014, the Bank and the Doğuş Group entered into an agreement that amends and restates the current SHA and which will come into force upon completion of the Bank's proposed acquisition of the above additional 14.89 per cent. interest in Garanti (the **amended and restated SHA**). Under the current SHA, certain decisions affecting the day to day management of Garanti require the consent of both the Bank and the Doğuş Group. Accordingly, under the current SHA the Bank must cooperate with the Doğuş Group in order to manage Garanti and grow its business.

The amended and restated SHA allows the Bank to appoint the Chairman of Garanti's board of directors, the majority of its members and Garanti's CEO, but provides that certain reserved matters must be implemented or approved (either at a meeting of the shareholders or of the board of directors) only with the consent of each party. For example, for so long as the Doğuş Group owns shares representing over 9.95 per cent. of the share capital of Garanti, the disposal or discontinuance of, or material changes to, any line of business or business entity within the Garanti group that has a value in excess of 25 per cent. of the Garanti group's total net assets in one financial year, will require the Doğuş Group's consent.

If the Bank and the Doğuş Group are unable to agree on such reserved matters, Garanti's business, financial condition and results of operations and the value of the Bank's investment may be adversely affected and the Bank may fail to achieve the expected benefits from its interest in Garanti. In addition, due to the Bank's and Garanti's association with the Doğuş Group, which is one of the largest Turkish conglomerates and has business interests in the financial services, construction,

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tourism and automotive sectors, any financial reversal, negative publicity or other adverse circumstance relating to the Doğuş Group could adversely affect Garanti or the Bank.

***The full consolidation of Garanti in the consolidated financial statements of the Group following completion of the above acquisition may result in increased capital requirements***

Following completion of the above acquisition, the Bank will fully consolidate Garanti in the consolidated financial statements of the Group. The consolidation of Garanti will result in a significant increase in the Bank's risk weighted assets, reflecting the greater risk profile of Garanti's asset base, and it may result in an incremental increase in the capital requirements imposed on the Group by the Banking Regulation and Supervision Agency (BRSA) in Turkey and/or the ECB through the SSM.

### **Risks Relating to Other Countries**

***A further reduction in expansive monetary policies ("tapering") and an increase in interest rates by the Federal Reserve could increase exchange rate and interest rate volatility***

In order to stimulate their economies, the United States has been, and Japan is currently, carrying out expansive monetary policies. A reduction of this stimulus (**tapering**) (such as that implemented by the United States between December 2013 and October 2014) and a tightening of interest rates could potentially increase exchange rate volatility and financial uncertainty outside of the United States. Emerging economies are being subjected to capital outflows and currency depreciation, intensified in some cases by domestic events that have increased uncertainty regarding the management of their respective local economic policies. In addition, central banks are in the difficult position of having to decide between following the approach of the U.S. Federal Reserve to prevent further exchange rate depreciation and the loosening of monetary policy to support domestic growth.

As a result, differentiation between economies depending on their fundamentals can be wider than otherwise might be the case, with higher external deficits and more dependence on short-term and foreign-currency funding associated with greater vulnerability to capital outflows and currency depreciation. This might especially impact emerging economies such as Asia, Latin America and Turkey, which would negatively affect the business, financial condition, operating results and cash flows of the Group's subsidiaries in those regions.

***The Group's investment in the CITIC Group exposes it to regulatory, economic and geopolitical risk relating to emerging markets in Asia, particularly in the PRC***

BBVA's ownership interests in members of the CITIC Group, a Chinese banking group, are a 29.68 per cent. stake in CITIC International Financial Holdings Ltd (**CIFH**), a banking entity headquartered in Hong Kong, and a 9.6 per cent. stake in China CITIC Bank Corporation Limited (**CNCB**). BBVA announced the sale of its 29.68 per cent. stake in CIFH to CNCB (on completion of which CNCB will hold a 100 per cent. interest in CIFH) on 23rd December, 2014 and the sale of a 4.9 per cent. interest in CNCB on 23rd January, 2015. The closing of these transactions is subject to the relevant regulatory approvals in the case of the CIFH sale, and completion of the necessary legal and corporate requirements for the sale of this portion of its interest in CNCB.

CNCB is a banking entity headquartered in the PRC. To the extent of the Group's remaining interest in CNCB, the Group is exposed to the risks relating to emerging markets in the region, particularly in the PRC. The Chinese government has exercised, and continues to exercise, significant influence over the Chinese economy. Chinese 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 Chinese



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private sector entities in general, and on CNCB in particular. Chinese authorities have implemented a series of monetary tightening and macro prudential policies to slow credit growth and to contain rises in real estate prices. These could undermine profitability in the banking sector generally and CNCB's profitability in particular. The Group's business in the PRC may also be affected by the increased credit quality risks resulting from the recent increase in local government debt and financial stresses in smaller companies as their access to various forms of non-bank credit is tightened.

In addition, while the Group believes the long term prospects in the PRC are positive, particularly for the consumer finance market, risks are present from the anticipated long-term slowdown in growth. The different elements of these risks include: (i) the pending rebalancing of the PRC economy from an exports and investment economy to a consumption and services driven economy; (ii) accumulated imbalances such as those seen in outstanding debt levels; and (iii) the liberalisation process required in order for the market to be given the necessary scope to operate as the mechanism by which resources are assigned. All of these elements could pose risks to credit quality.

The PRC's GDP growth has moderated in an orderly manner following the efforts of the authorities to steer the economy towards a soft landing. For 2013, the PRC registered a 7.7 per cent. growth in GDP and a 7.3 per cent. growth is expected for 2014. The economic indicators available at the end of 2014 were consistent with a limited risk of significant adjustment beyond the expected slowdown of growth to 7 per cent. in 2015. The margins for flexibility in fiscal and monetary policies should also make it possible to address differences in demand from the expected levels.

Fundamental changes in the PRC's economic policy have also been announced. At the third plenum of the Chinese Communist Party, the authorities reiterated their commitment to maintaining high rates of growth, while at the same time proposing measures that will strengthen the role of the market in allocating resources and a rebalancing of the Chinese economy from a model of investment and exports towards increasing household consumption. These measures have high execution risks. For example, the rapid growth of credit has been reflected in liquidity tensions in the interbank market which are particularly affecting the shadow banking sector. The continuation of these tensions could have adverse effects on the stability of the system. Risks centre around uncertainties concerning U.S. monetary policy normalisation, the sluggish domestic real estate market and financial fragilities such as the debt overhang of local governments.

Any of these developments could have a material adverse effect on the Group's investments in Hong Kong or the business, financial condition, results of operations and cash flows of the Group.

### Other Risks

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

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out 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

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update its processes and systems that are designed to protect the security of its systems, software, networks and other technology assets, there is no assurance that all of its security measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in its systems, processes or security could have a material adverse effect on its results of operations, financial condition or prospects.

***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 centres. IT systems need regular upgrading and banks may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

***Compliance with anti-money laundering and anti-terrorism financing rules involves significant cost and effort***

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

## **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 (including as a result of the implementation of CRD IV and the BRRD) and have a material adverse effect on the terms and market value of the Preferred Securities. Some aspects of the manner in which CRD IV will be implemented remain uncertain***

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Offering Circular. Changes in the laws of Spain or their official interpretation by regulatory 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. They could also include the introduction of a variety of statutory resolution, loss-absorption and bail-in measures and tools, which may affect the rights of holders of obligations issued by the Bank, including the Preferred Securities.

Changes in Spanish law will include the amendment of Spanish laws governing the recovery, resolution and statutory loss absorbency regime established under Law 9/2012 (see "Factors that may

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*affect the Bank's ability to fulfil its obligations under the Preferred Securities – The Bank is subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a material adverse effect on its business, results of operations and financial condition*”), or any ordinance implementing, amending or substituting the same, including the implementation of the BRRD (see “*The Preferred Securities may be subject to loss absorption*”). On 1st December, 2014, the BRRD Draft Implementation Law was published for public consultation by the Spanish Ministry of Economy and Competitiveness. A new version of the BRRD Draft Implementation Law was made public on 26th January, 2015 concurrently with its submission to the Spanish Council of the State. It is expected that once the BRRD Draft Implementation Law is approved and enters into force it will implement the BRRD and will repeal and replace Law 9/2012 to reflect such implementation.

In addition, other changes in Spanish law will include the amendment and replacement of Spanish laws governing the capital requirements of banks to adapt and develop Spanish laws to complete the implementation of the CRD IV Directive. Although the CRD IV Directive was largely implemented through RD-L 14/2013, Law 10/2014 and Bank of Spain Circular 2/2014 of 31st January, there are certain regulatory developments in this area still pending as at the date of this Offering Circular which are expected to include at least one further Royal Decree (various drafts of which have been made public throughout 2014) and several circulars of the Bank of Spain.

CRD IV is a recently-adopted set of rules and regulations that imposes a series of new requirements, many of which will be phased in over a number of years. Although the CRR is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator.

Any such changes (including those which may result from the publication of the technical standards which interpret CRR) could impact the calculation of the CET1 ratio 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 depends, in part, on the calculation of this ratio and these capital measures, any change in Spanish law that could affect the calculation of such ratio and measures could also affect the determination of whether the Trigger Event has actually occurred.

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 or Applicable Banking Regulations 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 loss absorption*

The BRRD and the SRM Regulation provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The regime provided for by the BRRD is, among other things, stated to be needed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing 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. Under the SRM Regulation a centralised power of resolution is established and entrusted to the Single Resolution Board (the **SRB**) and to the national resolution authorities.

In accordance with the provisions of the SRM Regulation, when applicable, the SRB, the Council of the European Union (where relevant), and the Commission should replace the national resolution authorities designated under BRRD in respect to all aspects relating to the decision-making process and the national resolution authorities designated under BRRD should continue to carry out activities relating to the implementation of resolution schemes adopted by the SRB.

The powers provided to the resolution authorities in the BRRD and the SRM Regulation include write down and conversion powers to ensure relevant capital instruments (including Additional Tier 1 capital instruments such as the Preferred Securities) fully absorb losses at the point of non-viability of the issuing institution, as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. Accordingly, the BRRD and the SRM Regulation contemplate that resolution authorities may require the permanent write down in full of such capital instruments (including Additional Tier 1 capital instruments such as the Preferred Securities) or the conversion of them into common equity tier 1 instruments at the point of non-viability (which common equity tier 1 instruments may also be subject to any application of the bail-in tool) and before any other resolution action is taken (the **BRRD Loss Absorption Requirement**).

For the purposes of the BRRD Loss Absorption Requirement, the point of non-viability under the BRRD and the SRM Regulation is the point at which the relevant authority determines that the institution meets the conditions for resolution or will no longer be viable (on a standalone or group basis) unless the relevant capital instruments (including the Preferred Securities) are written down or converted to equity or extraordinary public support is required by the institution. The determination that an institution is no longer viable may depend on a number of factors which may be outside of that institution's control. Furthermore, the determination that all or part of the liquidation preference or principal amount of any relevant capital instruments (such as the Preferred Securities) will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may also be outside of the institution's control. This determination will be made by the institution's regulators and there may be many factors, including factors not directly related to the institution, which could result in such a determination.

The provisions relating to the cooperation between the SRB and the national resolution authorities for the preparation of the banks' resolution plans have applied since 1st January, 2015 and the SRM should be fully operational from 1st January, 2016. See *"Factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities – Steps taken towards achieving an EU fiscal and banking union"* above.

On the basis of the BRRD, Member States were required to implement the BRRD Loss Absorption Requirement on or before 1st January, 2015 but implement the bail-in tool only from 1st January, 2016. To provide for such implementation in Spain, the BRRD Draft Implementation Law was published for public consultation by the Spanish Ministry of Economy and Competitiveness on 1st December, 2014 and a new version of the BRRD Draft Implementation Law was made public on 26th

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January, 2015. See “*Factors that may affect the Bank’s ability to fulfil its obligations under the Preferred Securities - Steps taken towards achieving an EU fiscal and banking union*” above. If the BRRD Loss Absorption Requirement is not implemented by 31st December, 2015, CRD IV indicates that the European Commission shall review and report on whether provision for such a requirement should be contained in CRD IV and, in light of that review, come forward with appropriate legislative proposals.

Notwithstanding the above, in addition to the BRRD Loss Absorption Requirement, the BRRD and the SRM Regulation provide resolution authorities with broader powers to implement other resolution measures with respect to an institution, which may include (without limitation) the replacement or substitution of the institution as obligor in respect of any debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments.

In addition to the above, the Spanish government, anticipating the rules to be implemented pursuant to the BRRD and implementing the agreements reached in the memorandum of understanding on financial sector policy conditionality dated 20th July, 2012 entered into between the Spanish Government and the Euro Group through Royal-Decree Law 24/2012, of 31st August, which was later replaced by Law 9/2012, has already introduced certain specific loss absorption measures in Spain that could be applied by the Bank, the Bank of Spain or the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*, the **FROB**) in the context of any restructuring and resolution processes under Law 9/2012.

The application of such loss absorption measures may be requested by the Bank or imposed by the Bank of Spain or the FROB if the Bank or the Group became subject to “restructuring” (*reestructuración*) or “resolution” (*resolución*) processes under Law 9/2012. The restructuring and resolution procedures may involve the application of loss absorption measures which may include, among others: (i) the deferment, suspension, elimination or amendment of certain rights, obligations, terms and conditions of the Preferred Securities, (ii) the repurchase of any Preferred Securities at a price set by the FROB, (iii) the exchange of any Preferred Securities for capital instruments of the Bank, (iv) the write down of any interest and/or principal amount of the Preferred Securities, and (v) the redemption of any Preferred Securities.

It is expected that Law 9/2012 will be repealed and replaced once the BRRD Draft Implementation Law is approved by the Spanish Parliament and enters into force, following which the obligations of the Bank under the Preferred Securities may be subject to loss absorption pursuant to the BRRD Loss Absorption Requirement. Until such amendment, the obligations of the Bank under the Preferred Securities may be subject to any bail-in or the loss absorption measures under Law 9/2012. In both scenarios, this may result in holders of the Preferred Securities losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Preferred Securities.

There can be no assurance that the implementation of the BRRD, through the BRRD Draft Implementation Law and any actions that may be taken pursuant to the BRRD once implemented, or Law 9/2012 would not adversely affect the price or value of a Holder’s investment in the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

### ***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

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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 Bank's CET1 ratio will have deteriorated significantly, the resulting Conversion 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 Conversion 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 5.2 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 5.2.**

Accordingly, an investor in the Preferred Securities faces almost the same risk of loss as an investor in the Common Shares in the event of a Conversion Event. See also "*Holdings 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

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affected, among other things, by the growth of the Bank's business and its future earnings; 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, calculations and risk weighted assets) and the Bank's ability to manage actively its risk weighted assets. 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 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.

***Perpetual Preferred Securities***

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.

***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 will 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



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- (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 (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force) 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 pending change which the Regulator considers sufficiently certain) in Spanish law or Applicable Banking Regulations that results (or would result) in 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 6.3.

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 of Spain or any change in the application or binding official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date (a) the Bank would not be entitled to claim a deduction for Spanish tax purposes in respect of any Distribution to be made on the Preferred Securities or the value of such deduction to the Bank would be materially reduced, (b) the Bank would be required to pay additional amounts pursuant to Condition 11, or (c) the applicable tax treatment of the Preferred Securities would be materially affected. See also Condition 6.4.

If any notice of redemption of the Preferred Securities is given pursuant to Condition 6 and a Trigger Event occurs prior to the deposit of the required funds for such redemption with the Principal Paying Agent and irrevocable instructions having been given, in each case by the Bank in accordance with Condition 6.7, 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 5.

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 Tax Event, the application or binding official interpretation 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 assurances 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.

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### *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 3, 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 that it deems necessary or desirable and for any 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 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 equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, 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.

No Distribution 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 the Maximum Distributable Amount (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 will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions*” below.

There can, therefore, be no assurances that a Holder will receive payments of Distributions in respect of the Preferred Securities. 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.

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 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.

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

***CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions***

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of risk weighted assets. In addition to these so-called “own funds” requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), including any additional “Pillar 2” capital that may be required to be maintained to address risks not considered to be fully captured by the minimum “own funds” requirements or to address macro-prudential considerations, and this may similarly include further capital requirements such as the TLAC requirement and MREL. The Bank may also decide to hold additional capital.

CRD IV further introduces capital buffer requirements that are in addition to the minimum capital requirement and are required to be satisfied with CET1 Capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer.

Two of these buffers are mandatory: the capital conservation buffer and the buffer in place for institutions, such as the Bank, which are deemed to be of global systemic importance (with the list of such institutions updated annually by the FSB). The Bank of Spain has greater discretion in relation to the countercyclical capital buffer, the buffer for institutions deemed of local systemic importance and the buffer for other systemic risks (to prevent systemic or macro prudential risks). With the entry into force of the SSM on 4th November, 2014, the ECB also has the ability to provide certain recommendations in this respect.

Subject to transitional provisions, the capital conservation buffer (currently 2.5 per cent.) will apply to the Bank and the Group, and the global systemically important institutions buffer (expected to be 1.0 per cent.) will apply to the Group, and some or all of the other buffers may apply to the Bank and/or the Group from time to time as determined by the Regulator.

See further “*Capital Requirements*” above.

Under Article 141 of the CRD IV Directive, Member States of the European Union must require that institutions that fail to meet the “combined buffer requirement” (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution) will be subject to restricted “discretionary payments” (which are defined broadly by CRD IV as payments relating to CET1 Capital, variable remuneration and payments on Additional Tier 1 capital instruments such as the Preferred Securities).

There can further be no assurance that the respective levels of the applicable capital buffers and/or the “combined buffer requirement” applicable to the Bank and/or the Group may not be increased in the future and/or additional capital requirements imposed, some or all of which may impact on the ability of the Bank and/or the Group to make “discretionary payments”, including Distributions on the Preferred Securities.

The 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 since the last distribution of profits or “discretionary payment”. Such calculation will result in a “Maximum

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Distributable Amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Bank of its discretion to cancel (in whole or in part) payments of Distributions in respect of the Preferred Securities.

Law 10/2014 provides for the implementation in Spain of the above provisions. Additionally, Law 10/2014 contemplates that its provisions implementing Article 141 of the CRD IV Directive (including the inter-relationship between such provisions and minimum and additional capital requirements, as well as buffer capital requirements and the calculation of the “Maximum Distributable Amount”) will be further developed by secondary regulatory legislation. In this context, in December 2014, the last draft of a Royal Decree was published, which provides for such further development of Law 10/2014. Article 73 of this draft contemplates some of the criteria for such determination but provides for the delegation to the Bank of Spain of the final implementation of these provisions. As at the date of this Offering Circular, details of such regulatory development are yet to be published.

The interpretation of Article 68 of Law 10/2014, implementing Article 104(1)(a) of the CRD IV Directive, and Article 16 of the SSM Regulation also remains unclear, in particular as to whether, similar to the inclusion of any additional capital requirements pursuant to “Pillar 2” requirements, the TLAC requirement 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 “*Capital Requirements*” 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 3 (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. If Common Shares are not issued and delivered following a Conversion Event, then on a liquidation, dissolution 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, dissolution or winding-up.

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

The Bank has the option to redeem 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 6 and 7). 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 6 and 7; 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 5, 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 6 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 5 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 5.4. 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

## RISK FACTORS

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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 conversion price adjustment shall be applicable in accordance with Conditions 5.4.2 and 5.4.3, 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 unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to 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 creditors ranking ahead of Holders. 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 before the liquidation, dissolution 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, dissolution or winding-up.

Therefore, if a Conversion Event occurs, 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, that Holder will bear the risk of fluctuations in the price of the Common Shares and the Bank may, in its sole and absolute discretion, cause the sale of any Common Shares underlying the Preferred Securities***

In order to obtain delivery of the relevant Common Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 5.11. 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

## RISK FACTORS

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Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-Off Date (save as provided below), in its sole and absolute discretion, elect to appoint a person (the **Selling Agent**) to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

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 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 Law 24/1988, of 28th July, on the Securities Market, as amended (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and Royal Decree 1066/2007, of 27th July, 2007, as amended (*Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores*), 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 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 incurrance 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***

Except as provided under Condition 10.5, 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 incurrance of any such further indebtedness may reduce the

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amount recoverable by Holders on a liquidation, dissolution 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 entitled to the Common Shares is registered as a shareholder in Iberclear and its participating entities in accordance with the provisions of, and subject to 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, dissolution 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, dissolution or winding-up, as more particularly described in Condition 4.2.

### RISKS RELATED TO THE PREFERRED SECURITIES GENERALLY

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

Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. 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 Offering Circular, taking into account that the Preferred Securities may only be a suitable investment for professional or institutional investors;
- (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 financial resources and liquidity to bear 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.



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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.

### *Prohibition on acquisition of Preferred Securities by Spanish Residents*

Any sale, transfer or acquisition of Preferred Securities to or by Spanish Residents is forbidden in all cases. Any transfer of Preferred Securities to or by Spanish Residents is not permitted and such transfer will be considered null and void by the Bank. Accordingly, the Bank will not recognise any Spanish Resident as a holder or beneficial owner of Preferred Securities for any purpose.

### *Spanish tax rules*

Article 44 of RD 1065/2007, as amended by RD 1145/2011, 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 44.5 of RD 1065/2007, as amended by RD 1145/2011, income derived from securities originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another OECD country (such as Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Paying Agent appointed by the Bank submits a statement to the Bank, the form of which is included in the Agency Agreement, with the following information:

- (i) identification of the securities; and
- (ii) total amount of the income corresponding to each clearing system located outside Spain.

These obligations refer to the total amount paid to investors through each foreign clearing house. For these purposes, “income” means interest and the difference, if any, between the aggregate amount payable on the redemption of the Preferred Securities and the issue price of the Preferred Securities.

In accordance with Article 44 of RD 1065/2007, as amended by RD 1145/2011, the relevant Paying Agent 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 such date, the entity(ies) obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate (as at the date of this Offering Circular, 20 per cent. and 19 per cent. as of 1st January, 2016) 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 that withholding tax were 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 11 and as otherwise described in this Offering Circular.

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.

## RISK FACTORS

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### *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 a syndicate 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.

### *U.S. Foreign Account Tax Compliance Act Withholding*

Whilst the Preferred Securities are in global form and held within Euroclear or Clearstream, Luxembourg (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank's obligations under the Preferred Securities are discharged once it has made payment to, or to the order of, the common depositary for the ICSDs (as bearer of the Preferred Securities) and the Bank therefore has no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) generally are not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make on securities such as the Preferred Securities. For more information, see "*Taxation – Foreign Account Tax Compliance Act*" below.

### *EU Savings Directive*

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24th March, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to implement national legislation giving effect to these new requirements by 1st January, 2016 (which national legislation must apply from 1st January, 2017). The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

## **RISK FACTORS**

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For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in Austria when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Bank nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

### **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***

The Preferred Securities may have no established trading market when issued, and one may never develop. 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 7 or any Capital Reduction Conversion as provided in Condition 5.2. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

#### ***Exchange rate risks and exchange controls***

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. 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.

## RISK FACTORS

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

The Preferred Securities are expected, upon issue, to be 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 change in the credit ratings assigned to the Preferred Securities may affect the market value of the Preferred Securities. Such change 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.

A credit rating is not a recommendation to buy, sell or hold securities and may be revised 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 whilst the registration application is pending. 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). The list of registered and certified rating agencies published by the European Securities and Markets Authority (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 credit rating information is set out on the cover of this Offering Circular

### ***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.

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## OVERVIEW OF THE OFFERING

*The following is an overview of certain information relating to the offering of the Preferred Securities, including the principal provisions of the terms and conditions thereof. 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 Offering Circular. 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 Summary.

<b>Issuer:</b>	Banco Bilbao Vizcaya Argentaria, S.A.
<b>Risk Factors:</b>	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> " above and include the Bank's exposure to adverse changes in the Spanish economy and real estate market and risks relating to the lack of availability of funding, volatility in interest rates and increased competition. 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> ".
<b>Issue size:</b>	€1,500,000,000
<b>Issue details:</b>	<p>Series 3 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 Liquidation Preference each.</p> <p>The Bank has requested 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 6.750 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum, converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.604 per cent. per annum and the 5-year Mid-Swap Rate for such Reset Period. Subject as provided in the Conditions (see " <i>Limitations on</i>

*Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 3.

**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 that it deems necessary or desirable and for any 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 equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, 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 Distribution 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 the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

**Status of the Preferred Securities:**

Unless previously converted into Common Shares pursuant to Condition 5, the Preferred Securities are unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

**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 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 (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event.

The Preferred Securities may further be redeemed on or after the Closing Date at the option of the Bank (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force), in whole but not in part at the Redemption Price if there is a Tax Event.

For further information, see Condition 6.

### **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, 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 of a duly completed and signed Election Notice on or before the 10th Business Day immediately following the Capital Reduction Notice Date, which Election Notice shall be irrevocable.

### **Conversion Price:**

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) 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 5.4.

### **Liquidation Distribution:**

Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5) 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, dissolution 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, 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, dissolution or winding-up.

**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 in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.

**Prohibition on acquisition of Preferred Securities by Spanish Residents:**

**Any sale, transfer, or acquisition of Preferred Securities to or by Spanish Residents is forbidden in all cases. Any transfer of Preferred Securities to or by Spanish Residents is not permitted and such transfer will be considered null and void by the Bank. Accordingly, the Bank will not recognise any Spanish Resident as a holder or beneficial owner of Preferred Securities for any purpose.**

**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 Holders will have the right, under certain circumstances, to participate in the adoption of certain decisions in the General Meetings.

For further information, see Condition 10.

**Withholding Tax and Additional Amounts:**

Subject as provided in Condition 11.2, 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, the Bank shall pay such additional amounts as would have been



## OVERVIEW OF THE OFFERING

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received had no such withholding or deduction been required.

For further information, see Condition 11 and "*Taxation - Preferred Securities - Tax Reporting Obligations of the Bank*" below.

**Form:**

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.

**Ratings:**

The Preferred Securities are expected, on issue, to be assigned a Ba2 rating by Moody's and a BB rating 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 to the Irish Stock Exchange for the Preferred Securities to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.

**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, Spanish law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Preferred Securities in the United States, the United Kingdom, Spain, Singapore, Hong Kong and Switzerland. Regulation S, category 2 restrictions under the Securities Act apply; TEFRA C. The Preferred Securities will not be eligible for sale in the United States under Rule 144A of the Securities Act.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated in, and form part of, this Offering Circular:

- (a) the Form 20-F of the Bank, for the financial year ended 31st December, 2013 as filed with the U.S. Securities and Exchange Commission (**SEC**) on 30th April, 2014, (which includes on pages F-1 to F-180 and pages A-1 to A-42 thereof, the published annual audited consolidated financial statements of the Group as at and for each of the years ending 31st December, 2013, 31st December, 2012 and 31st December, 2011) (the **2013 Form 20-F**);
- (b) the Form 6-K of the Bank, for the six month period ending 30th June, 2014, filed with the SEC on 24th October, 2014 (which includes on pages F-1 to F-166 and pages A-1 to A-35 thereof the unaudited interim consolidated financial statements of the Group as at and for each of the six month periods ending 30th June, 2014 and 30th June, 2013);
- (c) the unaudited interim consolidated financial information of the Group for the nine month period ending 30th September, 2014, filed with the SEC on 14th November, 2014 (which includes on pages 3 to 27 thereof the unaudited interim consolidated financial statements of the Group as at and for each of the nine month periods ending 30th September, 2014 and 30th September, 2013); and
- (d) the audited consolidated financial statements of the Group as at and for the 12 month period ending 31st December, 2014 (the **Consolidated Financial Statements**).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the Bank at Paseo de la Castellana, 81, 28046 Madrid and from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB. In addition, copies of such documents may also be accessed on the website of the Bank ([www.bbva.com](http://www.bbva.com)).

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## 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, 2, 6 and 11).*

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 of the Bank, held on 16th March, 2012 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 3rd February, 2015 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*) (**Law 10/2014**) and the CRR (as defined below).

The Preferred Securities will be issued following the registration with the Mercantile Registry of Vizcaya of a public deed relating to the issuance of the Preferred Securities before the Closing Date (as defined below) (the **Public Deed of Issuance**).

Paragraphs in italics within these Conditions are a summary of certain procedures of Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg** and, together with Euroclear, the **European Clearing Systems**) and certain other information applicable to the Preferred Securities and will not be included in the Public Deed of Issuance. The European Clearing Systems may, from time to time, change their 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 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 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 arithmetic mean of 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 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,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to the rate for deposits in euro for a three month period offered by the principal swap dealers in the London interbank market to prime banks in the London interbank market;

## CONDITIONS OF THE PREFERRED SECURITIES

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**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 paragraph 5.5;

**Agency Agreement** means the agency agreement dated 18th February, 2015 relating to the Preferred Securities;

**Agent Bank** means Deutsche Bank AG, London Branch and includes any successor agent bank appointed in accordance with the Agency Agreement;

**Agents** means the agents appointed in accordance with the Agency Agreement;

**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, those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator (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);

**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 and London;

**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 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 paragraph 5.2;

**Capital Reduction Notice** has the meaning given in paragraph 5.2, 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 paragraph 5.2;

**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;

**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

## CONDITIONS OF THE PREFERRED SECURITIES

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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;

**Clearing System Preferred Securities** means, for so long as any of the Preferred Securities is represented by a Global Preferred Security held by or on behalf of a European Clearing System, any particular Liquidation Preference of the Preferred Securities shown in the records of a European Clearing System as being held by a Holder;

**Closing Date** means 18th February, 2015;

**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*);

**Commissioner** has the meaning given in paragraph 10.1;

**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 the 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),in each case on that Conversion Notice Date; or
- (b) 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 and notice of the expected Conversion Settlement Date and of the Conversion Price shall be given to Holders in accordance with paragraph 12 not more than 10 Business Days following the Conversion Notice Date;

**Conversion Shares** has the meaning given in paragraph 5.3;

**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 or such other directive as may come into effect in place thereof;

**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, Spanish Law 10/2014, as amended from time to time, and any other regulation, circular or guidelines implementing 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 or such other regulation as may come into effect in place thereof;

**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

## CONDITIONS OF THE PREFERRED SECURITIES

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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 in the form for the time being currently available from the specified office of any Paying and Conversion Agent or in such form as may be acceptable to Euroclear and Clearstream, Luxembourg from time to time, which contains the relevant account and related details for the delivery of any Common Shares and all relevant certifications and/or representations as may be required by applicable law and regulations (or is deemed to constitute the confirmation thereof), and which are required to be delivered in connection with a Conversion of the Preferred Securities and the delivery of the Common Shares;

**Distributable Items of the Bank** means (subject as otherwise defined in Applicable Banking Regulations), at any time, the amount of the profits of the Bank at the end of the financial year immediately preceding the relevant Distribution Payment Date plus (i) any profits brought forward and reserves available for that purpose before distributions to holders of the Preferred Securities, any Parity Security or Common Shares or any other instrument ranking junior to the Preferred Securities less (ii) any losses brought forward, profits which are non-distributable pursuant to the Spanish Corporations Law and/or Applicable Banking Regulations and/or the by-laws (*estatutos sociales*) of the Bank and sums placed to non-distributable reserves in accordance with the Spanish Corporations Law and/or Applicable Banking Regulations and/or the by-laws (*estatutos sociales*) of the Bank, those losses and reserves being determined on the basis of the non-consolidated and not on the basis of consolidated accounts of the Bank;

## CONDITIONS OF THE PREFERRED SECURITIES

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**Distribution** means the non-cumulative cash distribution in respect of the Preferred Securities and a Distribution Period determined in accordance with paragraph 3;

**Distribution Payment Date** means each of 18th May, 18th August, 18th November and 18th February 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 paragraph 3;

**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;



## CONDITIONS OF THE PREFERRED SECURITIES

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- (b) any issue of Common Shares falling within paragraphs 5.4.1 or 5.4.2 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;

## CONDITIONS OF THE PREFERRED SECURITIES

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**Election Notice** has the meaning given in paragraph 5.2;

**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 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;

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

**Extraordinary Resolution** has the meaning given in paragraph 10.3(a);

**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 18th February, 2020;

**Floor Price** means €3.75 per Common Share, subject to adjustment in accordance with paragraph 5.4;

**Further Preferred Securities** means any substantively similar Parity Securities which are contingently convertible into Common Shares other than at the option of the holders thereof;

## CONDITIONS OF THE PREFERRED SECURITIES

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**General Meeting** means the general meeting of Holders convened in accordance with the Regulations;

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

**Holders** means holders of the Preferred Securities;

**Iberclear** means the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.*);

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

**Initial Margin** means 6.604 per cent. per annum;

**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, paragraph 3, 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 any maximum distributable amount required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of Spanish law transposing or implementing CRD IV);

**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.

## CONDITIONS OF THE PREFERRED SECURITIES

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

**Offering Circular** means the offering circular dated 11th February, 2015 relating to the Preferred Securities;

**Parity Securities** means any preferred securities (*participaciones preferentes*) issued under Law 10/2014 (or any preceding equivalent legislation) and/or in accordance with the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the Preferred Securities;

**Paying and Conversion Agents** means the Principal Paying Agent and any other paying and conversion agent appointed in accordance with the Agency Agreement and includes any successors thereto appointed from time to time in accordance with the Agency Agreement;

**Payment Business Day** means a TARGET2 Business Day and, in the case of Preferred Securities in definitive form only, 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 the relevant place of presentation;

**Preferred Securities** means these Series 3 €1,500,000,000 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, in 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;

**Principal Paying Agent** means Deutsche Bank AG, London Branch (or any successor Principal Paying Agent appointed by the Bank from time to time and notice of whose appointment is published in the manner specified in paragraph 12);

**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, paragraph 3, 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 London 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 or the Bank of Spain, as applicable, or such other or successor authority having primary bank supervisory authority with respect to prudential matters in relation to the Bank and/or the Group.

**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 or quoted or accepted for dealing;

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

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

**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 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. 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, 0.319 per cent. per annum;

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

**Retroactive Adjustment** has the meaning given in paragraph 5.5;

**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”;

## CONDITIONS OF THE PREFERRED SECURITIES

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**Screen Page** means the display page on the relevant Reuters information service designated as the “ISDAFIX2” page or such other page as may replace it 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;

**Selling Agent** has the meaning given in paragraph 5.11;

**Settlement Shares Depository** means a reputable independent financial institution, trust company or similar entity 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 Common Shares in Iberclear or any of its participating entities 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;

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

**Spanish Resident** means a tax resident of Spain for the purposes of the Spanish tax legislation and any tax treaty signed by Spain for the avoidance of double taxation, including (i) any corporation, or other entity taxable as a corporation, incorporated under Spanish law, whose registered office is located in Spain or whose effective management is performed in Spain, (ii) any non-resident entity for tax purposes in Spain acting in respect of the Preferred Securities through a permanent establishment in Spain, and (iii) any individual who is physically present in the Spanish territory for more than 183 days in the calendar year or whose main centre or base of activities or economic interests is in Spain;

**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*);

**Specified Date** has the meanings given in paragraphs 5.4.4, 5.4.6, 5.4.7 and 5.4.8, as applicable;

**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

## CONDITIONS OF THE PREFERRED SECURITIES

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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;

**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;

**Syndicate** means the syndicate of Holders;

**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 of Spain or any change in the application or binding official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date (a) the Bank would not be entitled to claim a deduction in computing 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 paragraph 11 below and such obligation cannot be avoided by the Bank taking reasonable measures available to it, 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 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;

**Trigger Conversion** has the meaning given in paragraph 5.1;

**Trigger Event** means if, at any time, as determined by the Bank the CET1 ratio is less than 5.125 per cent., provided that the Trigger Event will be deemed not to have occurred if at such time the required funds for the redemption of the Preferred Securities have already been deposited with the Principal Paying Agent and irrevocable instructions given, in each case by the Bank in accordance with paragraph 6.7;

**Trigger Event Notice** has the meaning given in paragraph 5.1;

**Trigger Event Notice Date** means the date on which a Trigger Event Notice is given accordance with paragraph 5.1;

**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,

## CONDITIONS OF THE PREFERRED SECURITIES

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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; and

**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).

- 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 in accordance therewith or under 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 paragraph 5.4 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 paragraphs 5.4.4 and 5.4.6, 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 and Status

The Preferred Securities will be issued in bearer form.

*It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Bank to a common depositary for the European Clearing Systems. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant European Clearing System. It is anticipated that only in exceptional circumstances (such as the closure of Euroclear and Clearstream, Luxembourg, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Euroclear and Clearstream, Luxembourg or failure to comply with the terms and conditions of the Preferred Securities by the Bank) will definitive Preferred Securities be issued directly to such accountholders.*



## CONDITIONS OF THE PREFERRED SECURITIES

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Unless previously converted into Common Shares pursuant to paragraph 5, the Preferred Securities are unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

### 3. Distributions

#### 3.1 The Preferred Securities accrue Distributions:

- 3.1.1 in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 6.750 per cent. per annum; and
- 3.1.2 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 Agent Bank on the relevant Reset Determination Date.

Subject as provided in paragraphs 3.3 and 3.4 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 Agent 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).

#### 3.2 The Bank will be discharged from its obligations to pay Distributions on the Preferred Securities by payment to the Principal Paying Agent for the account of the Holders on the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in euro by transfer to an account capable of receiving euro payments, as directed by the Principal Paying Agent.

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 Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

#### 3.3 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 that it deems necessary or desirable and for any 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 equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the

## CONDITIONS OF THE PREFERRED SECURITIES

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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.

- 3.4 No Distribution 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 the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.
- 3.5 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 paragraph 3.3 above or the limitations on payment set out in paragraphs 3.3 and 3.4 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.
- 3.6 No such election to cancel the payment of any Distribution (or part thereof) pursuant to paragraph 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in paragraphs 3.3 and 3.4 above 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 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.
- 3.7 Save as described in this paragraph 3, the Preferred Securities will confer no right to participate in the profits of the Bank.
- 3.8 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 paragraph 11 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 paragraph 11) any law implementing an intergovernmental approach thereto.
- 3.9 The Agent 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 Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and 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 paragraph 12 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

## CONDITIONS OF THE PREFERRED SECURITIES

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- 3.10 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions

### 4. Liquidation Distribution

- 4.1 Subject as provided in paragraph 4.2 below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to paragraph 5 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.
- 4.2 If, before such liquidation, dissolution or winding-up of the Bank described in paragraph 4.1, a Conversion Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to paragraph 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of paragraph 4.1, 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, dissolution or winding-up.
- 4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in paragraphs 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

### 5. Conversion

- 5.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with paragraph 12 below (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 paragraph 3 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.

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.

## CONDITIONS OF THE PREFERRED SECURITIES

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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.

5.2 If a Capital Reduction occurs at any time on or after the Closing Date, then the Bank will:

- (a) notify the Regulator and Holders thereof immediately on the adoption of the relevant Capital Reduction measure by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with paragraph 12 below (together, a **Capital Reduction Notice**);
- (b) 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, paragraph 3, 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 paragraph 5.2, 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 paragraph 5.2, 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 (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 paragraph 3). To exercise such right, a Holder must complete, sign and deposit at the specified office of any Paying and Conversion Agent a duly completed and signed notice of election (an **Election Notice**), in the form for the time being current, obtainable from the specified office of any Paying and Conversion Agent together with the relevant Preferred Securities 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**). In the case of any Clearing System Preferred Securities, an Election Notice may be delivered within the Election Period by the Holder of such Clearing System Preferred Securities giving notice to the Principal Paying Agent of such election in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Holder's instruction by Euroclear or Clearstream, Luxembourg to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Election Notice shall be irrevocable. Each Paying and Conversion Agent shall notify the Principal Paying Agent within two Business Days of the end of such Election Period of the Election Notices received during the Election Period and the Principal Paying Agent shall notify the Bank of the details of the relevant Holders that have duly submitted an Election

## CONDITIONS OF THE PREFERRED SECURITIES

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Notice within the Election Period and the Preferred Securities of such Holders by no later than the immediately following Business Day.

Notwithstanding any of the above, any Preferred Securities that remain outstanding and are not converted pursuant to this paragraph 5.2 may still be the subject of Conversion on the occurrence of the Trigger Event pursuant to paragraph 5.1 above.

- 5.3 Subject as provided in paragraph 5.10, 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 to the Settlement Shares Depository on behalf of that Holder in accordance with paragraph 5.11. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

Holders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. After such delivery, Holders shall have recourse to the Settlement Shares Depository only for the delivery to them of such Conversion Shares or, in the circumstances described in paragraph 5.11, any cash amounts to which such Holders are entitled under paragraph 5.11.

If a Conversion Event occurs, the Preferred Securities will be converted in whole and not in part as provided in this paragraph 5.

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.

- 5.4 Upon the happening of any of the events described below, the Floor Price shall be adjusted as follows:

- 5.4.1 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.

## CONDITIONS OF THE PREFERRED SECURITIES

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- 5.4.2 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.

- 5.4.3 (a) If and whenever the Bank shall pay 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:

$$\frac{A - B}{A - C}$$

where:

- A is the Current Market Price of one Common Share on the Effective Date;
- 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; and
- C is the amount (if any) by which the Reference Amount determined in respect of the Relevant Dividend exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Common Share paid or made in such Relevant Year (where C shall equal zero if such previous Cash Dividends per Common Share are equal to, or exceed, the Reference Amount in respect of the Relevant Year). For the avoidance of doubt, "C" shall equal the Reference Amount determined in respect of the Relevant Dividend where no previous Cash Dividends per Common Share have been paid or made in such Relevant Year.

## CONDITIONS OF THE PREFERRED SECURITIES

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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 paragraph 5.4.3(a), the first date on which the Common Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

**Extraordinary Dividend** means:

- (i) 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; or
- (ii) any Cash Dividend (the **Relevant Dividend**) paid or made in a financial year of the Bank (the **Relevant Year**) if (A) the Fair Market Value of the Relevant Dividend per Common Share or (B) the sum of (I) the Fair Market Value of the Relevant Dividend per Common Share and (II) an amount equal to the aggregate of the Fair Market Value or Fair Market Values of any other Cash Dividend or Cash Dividends per Common Share paid or made in the Relevant Year (other than any Cash Dividend or part thereof previously determined to be an Extraordinary Dividend paid or made in such Relevant Year), exceeds the Reference Amount, and in that case the Extraordinary Dividend shall be the amount by which the Reference Amount is so exceeded;

**Reference Amount** means an amount per Ordinary Share that is consistent with the dividend policy of the Bank as applied or to be applied for a period or projected period of at least three years.

- (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

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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 paragraph 5.4.3(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 paragraph 5.4.3, 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.

5.4.4 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;



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- 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 first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this paragraph 5.4.4, the **Specified 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 paragraph 5.4.4, "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 Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this paragraph 5.4.4, the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- 5.4.5 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

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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 paragraph 5.4.5, 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.

5.4.6 If and whenever the Bank shall issue (otherwise than as mentioned in paragraph 5.4.4 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 pursuance 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 paragraph 5.4.4 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 time of issue of such Common Shares or date of issue or grant of such options, warrants or rights (as used in this paragraph 5.4.6, the **Specified 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 paragraph 5.4.6, "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 Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

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Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this paragraph 5.4.6, the date of issue of such Common Shares or, as the case may be, the grant of such options, warrants or rights.

- 5.4.7 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 paragraphs 5.4.4, 5.4.5 or 5.4.6 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 time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph 5.4.7, the **Specified Date**) such number of Common Shares is to be determined by reference to the application of a formula or other

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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 paragraph 5.4.7, "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 Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this paragraph 5.4.7, the date of issue of such Securities or, as the case may be, the grant of such rights.

- 5.4.8 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 paragraph 5.4.7 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

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Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this paragraph 5.4.8 or paragraph 5.4.7 above;

provided that if at the time of such modification (as used in this paragraph 5.4.8, the **Specified 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 paragraph 5.4.8, "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 Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

**Effective Date** means, in respect of this paragraph 5.4.8, the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- 5.4.9 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 paragraphs 5.4.2, 5.4.3, 5.4.4, 5.4.5 or 5.4.6 above or paragraph 5.4.10 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 paragraph 5.4.5 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 paragraph 5.4.9, the first date on which the Common Shares are traded ex-rights on the Relevant Stock Exchange.

- 5.4.10 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:

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- (a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph 5.4 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 (i) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that 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 paragraphs 5.4.4, 5.4.6, 5.4.7 and 5.4.8, 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 and (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 paragraphs 5.4.4, 5.4.6, 5.4.7 or 5.4.8, 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);

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- (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.
- 5.5 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 paragraph 5.4.1 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 paragraphs 5.4.2, 5.4.3, 5.4.4, 5.4.5 or 5.4.9 above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraphs 5.4.6 and 5.4.7 above or of the terms of any such modification as is mentioned in paragraph 5.4.8 above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under paragraph 5.4 above (such adjustment, a **Retroactive Adjustment**), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by 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 Holders in relation thereto.
- 5.6 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.
- 5.7 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 of 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.
- 5.8 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

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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 through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and paragraph 12 promptly after the determination thereof.

- 5.9 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.
- 5.10 Fractions of Common Shares will not be issued on Conversion or pursuant to paragraph 5.5 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 and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares or Additional Common Shares to be delivered by the Settlement Shares Depository 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.
- 5.11 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository 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 Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (i) such Delivery Notice to the Principal Paying Agent through the relevant European Clearing System and (ii) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant European Clearing System, each in accordance with the procedures of such European Clearing System) no later than 5 Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the **Notice Cut-off Date**).

The Principal Paying Agent shall give instructions to the Settlement Shares Depository for the relevant Common Shares to be delivered by the Settlement Shares Depository on the Conversion Settlement Date in accordance with the instructions given in the relevant Delivery Notice, provided that such duly completed Delivery Notice and the relevant Preferred Securities have been so delivered not later than the Notice Cut-off Date.

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the 10th Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a



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person (the **Selling Agent**) to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent 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 Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with paragraph 3.2 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 Bank, the Settlement Shares Depository and the Selling Agent in respect of the relevant Conversion.

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this paragraph 5.11 or in respect of any sale of any Common Shares, 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.

If the Bank does not appoint the Selling Agent by the 10th Business Day after the Conversion Settlement Date, or if any Common Shares are not sold by the Selling Agent in accordance with this paragraph 5.11, such Common Shares shall continue to be held by the Settlement Shares Depository until the relevant Holder delivers a duly completed Delivery Notice and the relevant Preferred Securities.

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities 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 this paragraph 5. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this paragraph 5.11 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.

- 5.12 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in paragraphs 5.11 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 Selling Agent (as the case may be) must pay (in the case of the Selling Agent, 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 Selling Agent, 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 Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

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- 5.13 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.
- 5.14 Notwithstanding any other provision of this paragraph 5 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.

### 6. Optional Redemption

- 6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this paragraph 6.
- 6.2 Subject to paragraphs 6.3 and 6.4 below, 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, subject to the prior consent of the Regulator, at any time on or after the First Reset Date, at the Redemption Price (and otherwise in accordance with Applicable Banking Regulations then in force).

*Article 78(1) of the CRR provides that the Regulator will give its consent to a redemption of the Preferred Securities in such circumstances provided that either of the following conditions is met:*

- (a) *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*
- (b) *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.*
- 6.3 If, on or after the Closing Date, there is a Capital Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price.

*Article 78(4) of the CRR provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR (as described above), if there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the Bank demonstrates to the satisfaction of the*

## CONDITIONS OF THE PREFERRED SECURITIES

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*Regulator that the regulatory reclassification was not reasonably foreseeable at the Closing Date.*

- 6.4 If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price per Preferred Security.

*Article 78(4) of the CRR provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Tax Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) of the CRR (as described above), there is a change in the applicable tax treatment of the instruments and the Bank demonstrates to the satisfaction of the Regulator that such Tax Event is material and was not reasonably foreseeable at the Closing Date.*

- 6.5 The decision to redeem the Preferred Securities must be irrevocably notified by the Bank to Holders upon not less than 30 nor more than 60 days' notice prior to the relevant redemption date through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and paragraph 12.
- 6.6 If any notice of redemption of the Preferred Securities is given pursuant to this paragraph 6 and a Trigger Event occurs prior to the deposit of the required funds for such redemption with the Principal Paying Agent and irrevocable instructions having been given, in each case by the Bank in accordance with paragraph 6.7 below, 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 paragraph 5.
- 6.7 If the Bank gives notice of redemption of the Preferred Securities, then by 12:00 (Central European Time) on the relevant redemption date, the Bank will:
- 6.7.1 irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and
  - 6.7.2 give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the Holders.
- 6.8 If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on the date of such deposit:
- 6.8.1 Distributions on the Preferred Securities shall cease;
  - 6.8.2 such Preferred Securities will no longer be considered outstanding; and
  - 6.8.3 the Holders will no longer have any rights as Holders except the right to receive the Redemption Price.
- 6.9 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or 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 paragraph 3 above, at the rate specified from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

### 7. 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 Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.

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 Preferred Securities on the occurrence of any Conversion Event) and shall be immediately surrendered to a Paying Agent for cancellation in accordance with Applicable Banking Regulations.

### 8. Prohibition on acquisition of Preferred Securities by Spanish Residents

**Any sale, transfer, or acquisition of preferred securities to or by Spanish Residents is forbidden in all cases. Any transfer of Preferred Securities to or by Spanish Residents is not permitted and such transfer will be considered null and void by the Bank. Accordingly, the Bank will not recognise any Spanish Resident as a holder or beneficial owner of Preferred Securities for any purpose.**

### 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 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 of the Paying and Conversion Agents 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 shall 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 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 Syndicate;
- (d) issue, allot and deliver Common Shares upon Conversion subject to and as provided in paragraph 5;
- (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 pre-emptive 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 paragraph 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, the Bank shall use all reasonable endeavours promptly to appoint such person for such purpose.

### 10. Constitution of the Syndicate and Exercise of Rights by Holders of Preferred Securities

- 10.1 The Syndicate will be constituted by virtue of the registration of the Public Deed of Issuance in the Mercantile Registry of Vizcaya before the Closing Date. The rules governing the functioning of the Syndicate and the rules governing its relationship with the Bank are contained in the regulations of the Syndicate (the **Regulations**) attached to the Public Deed of Issuance and in or substantially in the form scheduled to the Agency Agreement.

BBVA will appoint a temporary Comisario (the **Commissioner**) for the Syndicate pursuant to the Public Deed of Issuance.

By acquiring this Preferred Security, the Holder hereof automatically becomes a member of the Syndicate and is also deemed to have agreed to the terms of the Regulations and the appointment of the Commissioner in accordance with the terms of the Regulations. The Commissioner is the chairperson and the legal representative of the Syndicate. No person shall be entitled to acquire any Preferred Security without becoming a member of the Syndicate and shall be deemed to have granted to the Principal Paying Agent full power and authority to take any action and/or to execute and deliver any document or notices for the purposes of attending on behalf of the Holders the first meeting of the Syndicate called to confirm the appointment of the temporary Commissioner, approve its actions and ratify the Regulations and vote in favour of each resolution for the purposes of effecting the same. Upon the subscription of the Preferred Securities, the temporary Commissioner will call a general meeting of the Syndicate to ratify or reject the acts of the temporary Commissioner, confirm his appointment or appoint a substitute Commissioner and to ratify the Regulations. The provisions for meetings of the Syndicate are contained in the Regulations and in the Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Bank may, with the consent of the Principal Paying Agent and the Commissioner, but without the consent of the Holders amend these Conditions to correct any manifest error or to make any amendment of a formal, minor or technical nature or to comply with mandatory provisions of law.

## CONDITIONS OF THE PREFERRED SECURITIES

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The object and purpose of the Syndicate is to regulate the voting rights of the Holders to govern the relationship between such Holders. The registered office of the Syndicate is Paseo de la Castellana, 81, 28046 Madrid.

- 10.2 The Holders will have no voting rights at any extraordinary or ordinary meetings of shareholders of the Bank.
- 10.3 (a) Except as provided in paragraph 10.1 above, any amendment to the Conditions shall be approved by the Holders. Such amendments will be approved with the consent of Holders by a resolution adopted in a General Meeting of Holders in accordance with the procedures, quorum requirements and majorities established in the Regulations (an **Extraordinary Resolution**).
- (b) The Bank may without the consent or sanction of the Holders: (i) take any action required to issue additional Parity Securities or authorise, create and issue one or more other series of Parity Securities ranking equally with the Preferred Securities, as to the participation in the profits and/or assets of the Bank, without limit as to the amount; or (ii) take any action required to authorise, create and issue one or more other classes or series of shares of the Bank ranking junior to the Preferred Securities, as to the participation in the profits and/or assets of the Bank.
- (c) By acquiring this Preferred Security, the holder hereof agrees to renounce any rights of seniority or preference that may be conferred upon it (if any) under applicable Spanish law over any holder of such other preferred securities issued by the Bank from time to time and which are created by virtue of a public deed registered in accordance with applicable Spanish law.
- 10.4 The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities or any other securities by the Bank or any Subsidiary.
- 10.5 Neither the Bank nor any Subsidiary may issue, or guarantee the issue of, any Parity Securities or other instruments equivalent to Parity Securities ranking, either directly or through a guarantee, senior to the Preferred Securities, unless the terms and conditions of the Preferred Securities are amended so as to rank *pari passu* with any such issue of senior securities.
- 10.6 No vote in respect of the Preferred Securities will be required for the Bank to redeem and cancel the Preferred Securities.
- 10.7 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Bank nor any Subsidiary, to the extent that it is a holder of preferred securities of the Bank, shall be so entitled to vote.

## 11. Taxation

- 11.1 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 (**Spain**), the Bank shall pay such additional amounts as will result in Holders receiving

## CONDITIONS OF THE PREFERRED SECURITIES

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such amounts as they would have received had no such withholding or deduction been required.

11.2 The Bank shall not be required to pay any additional amounts as referred to in paragraph 11.1 in relation to any payment in respect of Preferred Securities:

- (a) presented for payment by or 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) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to an additional amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day; or
- (c) presented for payment by or 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 as may be required in order to comply with any procedures that may be implemented to comply with any interpretation of Royal Decree 1145/2011 made by the Spanish tax authorities; or
- (d) where the withholding or deduction referred to in paragraph 11.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a Holder who would be able to avoid the withholding or deduction referred to in paragraph 11.1 by presenting the Preferred Securities to a Paying Agent in another Member State of the European Union.

11.3 For the purposes of this paragraph 11, 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 received by the Principal Paying Agent 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 paragraph 12 below.

*See "Taxation" for a fuller description of certain tax considerations relating to the Preferred Securities.*

## 12. Notices

Notices, including notice of any redemption of the Preferred Securities, will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Bank may decide (which is expected to be the *Financial Times*). The Bank shall also ensure that 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. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Preferred Securities are issued, there may, so long as any Global Preferred Securities representing the Preferred Securities are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Holders except that for so long as any Preferred Securities are listed on a stock exchange or admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Holders on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Copies of any notices given to Holders shall also be sent to the Commissioner.

### 13. Agents

In acting under the Agency Agreement and in connection with the Preferred Securities, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, a successor agent bank, and additional or successor paying agents; provided, however, that the Bank will maintain (i) a Principal Paying Agent and an Agent Bank, and (ii) a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Holders.

### 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, Spanish law.
- 15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain 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 the city of Madrid, Spain. To the extent permitted by law, nothing contained in this clause shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more



## **CONDITIONS OF THE PREFERRED SECURITIES**

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jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

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### **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.

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

### HISTORY AND DEVELOPMENT OF THE BANK

BBVA's predecessor bank, BBV, was incorporated as a limited liability 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, 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). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and operates out of Paseo de la Castellana, 81, 28046, Madrid, Spain, telephone number +34-91-537-7253. BBVA's agent in the U.S. for U.S. federal securities law purposes is Banco Bilbao Vizcaya Argentaria, S.A., New York Branch (1345 Avenue of the Americas, New York, New York 10105 (Telephone: +1-212-728-1660)). BBVA is incorporated for an unlimited term.

### CAPITAL EXPENDITURES

BBVA's principal investments are financial investments in its subsidiaries and affiliates.

### Transactions announced in 2014 in relation to which settlement is pending

#### *Acquisition of a controlling interest in Garanti*

On 19th November, 2014, the Bank announced the acquisition of a further 62,538 million shares in Garanti, amounting to 14.89 per cent. of the total issued share capital of Garanti, from Doğuş, Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk. The maximum total consideration for this acquisition is approximately €1,988 million (calculated by reference to the Turkish lira exchange rate on 13th November, 2014).

Upon completion of this acquisition, the Bank's total holding in the share capital of Garanti will increase to 39.9 per cent., with approximately 10.0 per cent. still held by the Doğuş Group and approximately 50.1 per cent. held by other shareholders. The agreements with the Doğuş Group, including the arrangement for the management of Garanti and the appointment of its board of directors, are also to be amended and restated upon the completion of the acquisition, in a manner which will be materially consistent with the position under the existing agreement in respect of the increased shareholding of the Bank resulting from the acquisition.

Completion of this acquisition is expected to occur during 2015 and is conditional upon the obtaining of all necessary consents from the relevant regulatory authorities.

#### *Acquisition of Catalunya Banc*

On 21st July, 2014 the Management Commission of the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*, the **FROB**) accepted BBVA's bid in an auction for the acquisition of Catalunya Banc, S.A. (**Catalunya Banc**).

As a consequence, BBVA executed a sale and purchase agreement with the FROB, by virtue of which the FROB agreed to sell up to 100 per cent. of the shares of Catalunya Banc to BBVA for the price of up to €1,187,000,000.

This acquisition is expected to be completed in the first half of 2015. Completion is subject to, among other things, the obtaining of the relevant administrative authorisations and approvals and the

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effective closing of a transaction announced by Catalunya Banc on 17th July, 2014 pursuant to which Catalunya Banc will transfer a loan portfolio with a nominal value of €6,392,000,000 to an asset securitisation fund.

## **2013**

### ***Acquisition of Unnim Vida.***

On 1st February, 2013, Unnim Banc, S.A. reached an agreement with Aegon Spain Holding B.V. to acquire its 50 per cent. stake in Unnim Vida, S.A. de Seguros y Reaseguros (**Unnim Vida**). As a result the Group's total holding in the share capital of Unnim Vida is 100 per cent.

## **2012**

### ***Acquisition of Unnim***

On 7th March, 2012, the Management Commission of the FROB accepted BBVA's offer to acquire Unnim Banc, S.A. (**Unnim**). The FROB, the Deposit Guarantee Fund of Credit Institutions (*Fondo de Garantía de Depósitos* or **FGD**) and BBVA entered into a purchase agreement, by virtue of which BBVA acquired 100 per cent. of the shares of Unnim for a purchase price of €1.

In addition, BBVA, the FGD, the FROB and Unnim signed a Protocol of Financial Measures for the restructuring of Unnim, which regulates the Asset Protection Scheme through which the FGD will be responsible for 80 per cent. of the losses incurred by a predetermined asset portfolio of Unnim for a period of 10 years following the transaction.

On 27th July, 2012, following the completion of the transaction, BBVA became the holder of 100 per cent. of the capital of Unnim.

## **CAPITAL DIVESTITURES**

BBVA's principal divestitures are financial divestitures in its subsidiaries and affiliates.

### **Transactions announced in 2015 and 2014 in relation to which settlement is pending**

#### ***Sale of 4.9 per cent. interest in CNCB***

On 23rd January, 2015, the Bank announced that it had signed an agreement to sell a 4.9 per cent. interest in CNCB. The selling price is HK\$5.73 per share, amounting to a total of HK\$13,136 million and equivalent to approximately EUR 1,460 million (using the closing exchange rate as of 15th January, 2015). The closing of this transaction is subject to completion of the necessary corporate and legal requirements for such sale and is expected to occur in the first quarter of 2015.

#### ***Sale of CIFH***

On 23rd December, 2014 BBVA signed an agreement to sell its participation of 29.68 per cent. in CIFH, to CNCB. CNCB will thereafter hold a 100 per cent. interest in CIFH. The selling price is HK\$8,162 million, equivalent to approximately €845 million (calculated by reference to the closing exchange rate as of 12th December, 2014). The completion of such sale is subject to the relevant regulatory approvals and is expected to occur in the first quarter of 2015.

## **2013**

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### ***Sale of BBVA Panamá***

On 20th July, 2013, BBVA announced that it had reached an agreement with Leasing Bogotá S.A., Panamá, a subsidiary of Grupo Aval Acciones y Valores, S.A., for the sale of BBVA's direct and indirect ownership interest (98.92 per cent.) in Banco Bilbao Vizcaya Argentaria (Panamá), S.A. (**BBVA Panamá**). On 19th December, 2013, after having obtained the necessary approvals, BBVA completed the sale.

The total consideration that BBVA received pursuant to this sale amounted to approximately U.S.\$645 million. BBVA received part of the consideration through the distribution of dividends from BBVA Panamá prior to the closing of the transaction amounting to U.S.\$140 million (such amount reduced the purchase price to be paid to BBVA on closing).

After deducting such distribution of dividends the capital gain for BBVA, gross of taxes, amounted to approximately €230 million which was recognised under the heading "Gains (losses) in non-current assets held for sale not classified as discontinued operations" in the consolidated income statement in 2013.

### ***Sale of pension businesses in Latin America***

On 24th May, 2012, BBVA announced its decision to conduct a study on strategic alternatives for its pension business in Latin America. The alternatives considered in this process included the total or partial sale of the businesses of the Pension Fund Administrators (ASP) in Chile, Colombia and Peru, and the Retirement Fund Administrator (Afore) in Mexico. On 2nd October, 2013, with the sale of AFP Provida (as defined below), BBVA finalised this process. Below is a description of each of the transactions that have been carried out during this process:

#### ***Sale of AFP Provida (Chile)***

On 1st February, 2013, BBVA reached an agreement with MetLife, Inc., for the sale of the 64.3 per cent. stake that BBVA held directly and indirectly in the Chilean pension fund manager Administradora de Fondos de Pensiones Provida S.A. (**AFP Provida**).

On 2nd October, 2013, BBVA completed this sale. The total amount in cash received by BBVA was approximately U.S.\$1,540 million, taking into account the purchase price amounting to roughly U.S.\$1,310 million as well as the dividends paid by AFP Provida since 1st February, 2013 amounting to roughly U.S.\$230 million. The gain on disposal, attributable to the parent company net of taxes, amounted to approximately €500 million which was recognised under the heading "Profit from discontinued operations (net)" in the consolidated income statement in 2013. *Sale of BBVA AFP Horizonte, S.A. (Peru)*

On 23rd April, 2013, BBVA sold its wholly-owned Peruvian subsidiary AFP Horizonte, S.A. to AFP Integra S.A. and Profuturo AFP, S.A. who have each acquired 50 per cent. of AFP Horizonte, S.A. The total consideration paid for such shares was approximately U.S.\$544 million. This consideration consisted in a cash payment of approximately U.S.\$516 million and the distribution of a dividend prior to the closing of approximately U.S.\$28 million.

The gain on disposal, attributable to parent company net of taxes, amounted to approximately €206 million at the moment of the sale and such gain was recognised under the heading "Profit from discontinued operations (net)" in the consolidated income statement in 2013. *Sale of BBVA AFP Horizonte S.A. (Colombia)*

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On 24th December, 2012, BBVA reached an agreement with Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir, S.A., a subsidiary of Grupo Aval Acciones y Valores, S.A., for the sale to the former of the total stake that BBVA held directly or indirectly in the Colombian company BBVA Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A.

On 18th April, 2013, after having obtained the necessary approvals, BBVA completed the sale. The adjusted total price was U.S.\$541.4 million. The gain on disposal, attributable to BBVA net of taxes, amounted to approximately €255 million at the time of the sale, and was recognised under the heading "Profit from discontinued operations (net)" in the consolidated income statement in 2013. *Sale of Afore Bancomer (Mexico)*

On 27th November, 2012, BBVA reached an agreement to sell to Afore XXI Banorte, S.A. de C.V. its entire stake directly or indirectly held in the Mexican subsidiary Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. Once the corresponding authorisation was obtained from the competent authorities, the sale was closed on 9th January, 2013.

The total sale price was U.S.\$1,735 million (approximately €1,327 million). The gain on disposal, attributable to BBVA net of taxes, was approximately €771 million. ***New agreement with CITIC Group***

As of 17th October, 2013, BBVA reached a new agreement with the CITIC Group which contemplated the sale of BBVA's 5.1 per cent. stake in CNCB to CITIC Limited for an amount of approximately €944 million. After this sale, the stake of BBVA in CNCB was reduced to 9.9 per cent.

BBVA and the CITIC Group also agreed to adapt their strategic cooperation agreement to the new circumstances by removing the exclusivity obligations that affected the activities of BBVA in the PRC and agreeing to negotiate new areas of cooperation among both banks.

As a result of the changes referred to above, BBVA began accounting for its investment in CNCB as an "Available-for-sale financial asset" as of 1st October, 2013. The change in the accounting criteria and the sale referred to above resulted in a loss attributable to the Group at the time of the sale of approximately €2,600 million which was recognised under the heading "Gains (losses) on derecognised assets not classified as non-current assets held for sale" in the consolidated income statement in 2013.

## **2012**

In June 2012, BBVA reached an agreement to sell its business in Puerto Rico to Oriental Financial Group Inc. The sale price was U.S.\$500 million (approximately €385 million at the exchange rate on the date of the transaction). Gross capital losses from this sale amounted to approximately €15 million (taking into account the exchange rate at the time of the transaction and the earnings of the sold companies up to the closing of the transaction, on 18th December, 2012).

## **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 six operating segments:

- Banking Activity in Spain

- Real Estate Activity in Spain
- 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 industrial holdings and their corresponding results; certain tax assets and liabilities; provisions related to commitments with pensioners; and goodwill and other intangibles.

The breakdown of the Group's total assets by operating segments as of 31st December, 2014, 2013 and 2012 is as follows:

Total Assets by Operating Segment	As of 31st December		
	2014	2013 <sup>(***)</sup>	2012 <sup>(***)</sup>
<i>(In Millions of Euro)</i>			
Spain .....	318,353	314,902	345,521
Real Estate Activity in Spain .....	17,934	20,582	22,112
Eurasia <sup>(*)</sup> .....	44,667	41,223	48,324
Mexico .....	93,731	81,801	82,722
South America .....	84,364	77,874	75,877
United States .....	69,261	53,046	53,880
<b>Subtotal Assets by Operating Segments.....</b>	<b>628,310</b>	<b>589,428</b>	<b>628,436</b>
Corporate Center and other adjustments <sup>(**)</sup> .....	3,632	(6,732)	(7,304)
<b>Total Assets BBVA Group .....</b>	<b>631,942</b>	<b>582,697</b>	<b>621,132</b>

\* The information is presented under management criteria, pursuant to which Garanti's information has been proportionally integrated based on the Group's 25.01 per cent. interest in Garanti.

\*\* Other adjustments include adjustments made to account for the fact that, in the Consolidated Financial Statements, Garanti is accounted for using the equity method rather than using the management criteria referred to above.

\*\*\* There are minor restatements relating to, among others things, the reclassification of our business in Panama (sold in 2013) to the Corporate Center.

The following table sets forth information relating to the profit attributable to the parent company by each of BBVA's operating segments for the years ended 31st December, 2014, 2013 and 2012.

	Profit/(Loss) Attributable to Parent Company			% of Profit/(Loss) Attributable to Parent Company		
	For the Year Ended 31st December			2014	2013	2012
	2014	2013	2012	2014	2013	2012
<i>(In Millions of Euro)</i>				<i>(In Percentage)</i>		
Spain .....	1,028	589	1,186	25.3	18.4	143.7
Real Estate Activity in Spain .....	(876)	(1,252)	(4,068)	(21.6)	(39.1)	(492.8)
Eurasia .....	565	449	404	13.9	14.0	48.9
Mexico .....	1,915	1,802	1,687	47.1	56.3	204.3

South America .....	1,001	1,224	1,172	24.6	38.2	142.0
United States .....	428	390	445	10.5	12.2	53.9
<b>Subtotal operating segments .....</b>	<b>4,062</b>	<b>3,201</b>	<b>826</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Corporate Center .....	(1,444)	(1,117)	850			
<b>Profit attributable to parent company .....</b>	<b>2,618</b>	<b>2,084</b>	<b>1,676</b>			

The following table sets forth information relating to the income of each operating segment for the years ended 31st December, 2014, 2013 and 2012 and reconciles the income statement of the various operating segments to the consolidated income statement of the Group:

Operating Segments										
	Spain	Real Estate Activity in Spain	Eurasia	Mexico	South America	United States	Corporate Center	Total	Adjustments (*)	BBVA Group
	<i>(In Millions of Euro)</i>									
<b>2014</b>										
Net interest income.....	3,830	(38)	924	4,910	4,699	1,443	(651)	15,116	(734)	14,382
Operating profit	1,463	(1,225)	713	2,519	1,951	561	(1,920)	4,063	(83)	3,980
/(loss) before tax.....										
<b>Profit .....</b>	1,028	(876)	565	1,915	1,001	428	(1,444)	2,618	-	2,618
<b>2013</b>										
Net interest income.....	3,838	(3)	909	4,478	4,660	1,402	(671)	14,613	(713)	13,900
Operating profit	230	(1,838)	586	2,358	2,354	534	(1,680)	2,544	(1,589)	954
/(loss) before tax.....										
<b>Profit .....</b>	589	(1,252)	449	1,802	1,224	390	(1,117)	2,084	-	2,084
<b>2012</b>										
Net interest income.....	4,729	(21)	851	4,174	4,236	1,550	(397)	15,122	(648)	14,474
Operating profit	1,651	(5,705)	508	2,223	2,234	620	(783)	749	833	1,582
/(loss) before tax.....										
<b>Profit .....</b>	1,186	(4,068)	404	1,687	1,172	445	850	1,676	-	1,676

(\*) Other adjustments include adjustments made to account for the fact that, in BBVA's Consolidated Financial Statements, Garanti is accounted for using the equity method rather than using the management criteria referred to above.

## Spain

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

- **Spanish Retail Network:** including the segments of 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.



In addition, it includes certain portfolios, finance and structural euro balance sheet positions.

The following table sets forth information relating to the activity of this operating segment for the years ended 31st December, 2014, 2013 and 2012:

	As of 31st December		
	2014	2013	2012
	<i>(In Millions of Euro)</i>		
<b>Total Assets</b> .....	<b>318,353</b>	<b>314,902</b>	<b>345,521</b>
<b>Loans and advances to customers</b> .....	<b>174,197</b>	<b>178,283</b>	<b>193,311</b>
<i>Of which:</i> .....			
Residential mortgages .....	74,508	77,575	84,602
Consumer finance.....	5,270	6,703	7,663
Loans.....	3,946	4,962	6,043
Credit cards.....	1,324	1,741	1,620
Loans to enterprises.....	37,224	37,181	45,148
Loans to public sector.....	22,833	21,694	24,770
<b>Customer deposits</b> .....	<b>154,261</b>	<b>157,124</b>	<b>146,008</b>
Current and savings accounts .....	58,645	53,408	47,512
Time deposits .....	62,203	74,451	62,598
Other customer funds .....	17,799	8,436	9,593
<b>Off-balance sheet funds</b> .....	<b>50,749</b>	<b>42,933</b>	<b>40,156</b>
Mutual funds.....	28,695	22,298	19,116
Pension funds .....	21,880	20,428	18,577
Other placements.....	174	206	2,463

Loans and advances to customers of this operating segment as of 31st December, 2014 amounted to €174,197 million, a 2.3 per cent. decrease from the €178,283 million recorded as of 31st December, 2013, mainly as a result of maturities of existing loans and advances that have not been offset by higher lending activity.

Customer deposits of this operating segment as of 31st December, 2014 amounted to €154,261 million, a 1.8 per cent. decrease from the €157,124 million recorded as of 31st December, 2013, mainly due to the lower return provided on time deposits that has led to a shift of funds to demand deposits and mutual funds.

Mutual funds of this operating segment as of 31st December, 2014 amounted to €28,695 million, a 28.7 per cent. increase from the €22,298 million recorded as of 31st December, 2013. Pension funds of this operating segment as of 31st December, 2014 amounted to €21,880 million, a 7.1 per cent. increase from the €20,428 million recorded as of 31st December, 2013. These increases are mainly the result of the active marketing of a diversified portfolio of mutual and pension funds to certain customer segments, in an environment of low interest rates.

This operating segment's non-performing assets ratio decreased to 6.0 per cent. as of 31st December, 2014, from 6.4 per cent. as of 31st December, 2013, mainly due to lower net additions to non-performing assets. This operating segment non-performing assets coverage ratio increased to 45 per cent. as of 31st December, 2014, from 41 per cent. as of 31st December, 2013.

### ***Real Estate Activity in Spain***

This operating segment has been 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 includes primarily lending to real estate developers (which was previously included in the Spain segment) and foreclosed real estate assets (which were previously included in the Corporate Center).

The exposure, including loans and advances to customers and foreclosed assets, to the real estate sector in Spain is declining. As of 31st December, 2014, the balance stood at €12,545 million, 13.9 per cent. lower than as of 31st December, 2013.

### ***Eurasia***

This operating segment covers the retail and wholesale banking businesses of the Group in the rest of Europe and Asia. It also includes BBVA's stakes in the Turkish bank Garanti. Following management criteria, assets and liabilities corresponding to BBVA's 25.01 per cent. stake in Garanti are included in every balance sheet line.

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2014, 2013 and 2012:

	<b>As of 31st December</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>(In Millions of Euro)</i>		
<b>Total Assets</b> .....	<b>44,667</b>	<b>41,223</b>	<b>48,324</b>
<b>Loans and advances to customers</b> .....	<b>29,430</b>	<b>28,397</b>	<b>30,228</b>
<i>Of which:</i> .....			
Residential mortgages .....	4,193	4,156	84,602
Consumer finance .....	4,143	3,983	4,262
<i>Loans</i> .....	2,877	2,743	3,051
<i>Credit cards</i> .....	1,266	1,240	1,212
Loans to enterprises.....	18,860	18,348	19,550
Loans to public sector.....	234	251	102
<b>Customer deposits</b> .....	<b>22,671</b>	<b>17,634</b>	<b>17,470</b>
Current and savings accounts .....	3,637	3,148	3,098
Time deposits .....	10,170	9,009	9,576
Other customer funds .....	7,145	4,305	3,795
<b>Off-balance sheet funds</b> .....	<b>2,401</b>	<b>1,966</b>	<b>2,016</b>
Mutual funds.....	1,549	1,332	1,408
Pension funds .....	852	634	608

Loans and advances to customers of this operating segment as of 31st December, 2014 amounted to €29,430 million, a 3.6 per cent. increase from the €28,397 million recorded as of 31st December, 2013, as a result of the evolution of the Garanti loan portfolios, particularly loans denominated in Turkish Lira, with a positive trend to consumer finance loan and credit card portfolios.

Customer deposits of this operating segment as of 31st December, 2014 amounted to €22,671 million, a 28.6 per cent. increase from the €17,634 million recorded as of 31st December, 2013, as a result of increased volume in foreign currency deposits of Garanti.

Mutual funds of this operating segment as of 31st December, 2014 amounted to €1,549 million, a 16.3 per cent. increase from the €1,332 million recorded as of 31st December, 2013, due to an increase of mutual funds in Luxembourg.

Pension funds of this operating segment as of 31st December, 2014 amounted to €852 million, a 34.4 per cent. increase from the €634 million recorded as of 31st December, 2013, mainly as a result of increases in Turkey and Portugal.

This operating segment's non-performing assets ratio decreased to 3.3 per cent. as of 31st December, 2014 from 3.4 per cent. as of 31st December, 2013. This operating segment non-performing assets coverage ratio increased to 92 per cent. as of 31st December, 2014 from 87 per cent. as of 31st December, 2013.

### **Mexico**

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

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2014, 2013 and 2012:

	<b>As of 31st December</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>(In Millions of Euro)</i>		
<b>Total Assets</b> .....	<b>93,731</b>	<b>81,801</b>	<b>82,722</b>
<b>Loans and advances to customers</b> .....	<b>46,798</b>	<b>40,668</b>	<b>39,060</b>
<i>Of which:</i> .....			
Residential mortgages .....	9,272	8,985	9,399
Consumer finance .....	10,902	10,096	9,785
<i>Loans</i> .....	5,686	4,748	4,421
<i>Credit cards</i> .....	5,216	5,348	5,364
Loans to enterprises.....	16,706	13,867	12,493
Loans to public sector.....	4,295	3,594	3,590
<b>Customer deposits</b> .....	<b>45,937</b>	<b>42,452</b>	<b>35,792</b>
Current and savings accounts .....	27,795	24,489	23,707
Time deposits .....	7,382	6,409	7,157
Other customer funds .....	3,914	3,819	3,207
<b>Off-balance sheet funds</b> .....	<b>22,094</b>	<b>19,673</b>	<b>19,896</b>
Mutual funds.....	18,691	16,896	17,492
Other placements.....	3,403	2,777	2,404

Loans and advances to customers of this operating segment as of 31st December, 2014 amounted to €46,798 million, a 15.1 per cent. increase from the €40,668 million recorded as of 31st December, 2013, mainly due to the increase in financing to medium-sized enterprises and consumer loans.

Customer deposits of this operating segment as of 31st December, 2014 amounted to €45,937 million, a 8.2 per cent. increase from the €42,452 million recorded as of 31st December, 2013, mainly as a result of the increase in demand deposits.

Mutual funds of this operating segment as of 31st December, 2014 amounted to €18,691 million, a 10.6 per cent. increase from the €16,896 million recorded as of 31st December, 2013, mainly as a result of a marketing campaign to boost corporate banking.

This operating segment's non-performing assets ratio decreased to 2.9 per cent. as of 31st December, 2014, from 3.6 per cent. as of 31st December, 2013. This operating segment non-performing assets

coverage ratio increased to 114 per cent. as of 31st December, 2014, from 110 per cent. as of 31st December, 2013.

### ***South America***

The South America operating segment manages the BBVA 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, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela.
- **Insurance businesses:** includes insurance businesses in Argentina, Chile, Colombia, and Venezuela.

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2014, 2013 and 2012:

	<b>As of 31st December</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>(In Millions of Euro)</i>		
<b>Total Assets</b> .....	<b>84,364</b>	<b>77,874</b>	<b>75,877</b>
<b>Loans and advances to customers</b> .....	<b>52,920</b>	<b>48,466</b>	<b>47,601</b>
<i>Of which:</i> .....			
Residential mortgages .....	9,621	8,533	84,602
Consumer finance .....	13,575	13,112	12,598
<i>Loans</i> .....	9,336	9,441	9,231
<i>Credit cards</i> .....	4,239	3,670	3,366
Loans to enterprises.....	20,831	18,565	18,851
Loans to public sector.....	650	601	615
<b>Customer deposits</b> .....	<b>56,370</b>	<b>55,167</b>	<b>52,759</b>
Current and savings accounts .....	37,006	37,639	33,901
Time deposits .....	17,686	15,869	16,440
Other customer funds .....	7,301	5,374	5,467
<b>Off-balance sheet funds</b> .....	<b>8,480</b>	<b>6,552</b>	<b>5,698</b>
Mutual funds.....	3,848	2,952	3,355
Pension funds .....	4,632	3,600	3,083

Loans and advances to customers of this operating segment as of 31st December, 2014 amounted to €52,920 million, a 9.2 per cent. decrease from the €48,466 million recorded as of 31st December, 2013, mainly due to increased activity particularly in small business finance and lending to corporates.

Customer deposits of this operating segment as of 31st December, 2014 amounted to €56,370 million, a 2.2 per cent. increase from the €55,167 million recorded as of 31st December, 2013, mainly due to an increase in the balance of current and saving accounts in Venezuela and in time deposits in Chile and Colombia.

Mutual funds of this operating segment as of 31st December, 2014 amounted to €3,848 million, a 30.3 per cent. increase from the €2,952 million recorded as of 31st December, 2013, mainly as a result of the positive performance in Argentina, Chile and Peru.

Pension funds of this operating segment as of 31st December, 2014 amounted to €4,632 million, a 28.7 per cent. increase from the €3,600 million recorded as of 31st December, 2013, mainly as a result of the increased volumes in Bolivia.

This operating segment's non-performing assets ratio was 2.1 per cent. as of 31st December, 2014 and 2013. This operating segment non-performing assets coverage ratio decreased to 138 per cent. as of 31st December, 2014, from 141 per cent. as of 31st December, 2013.

### ***United States***

This operating segment encompasses the Group's business in the United States. BBVA Compass accounted for approximately 94 per cent. of the operating segment's balance sheet as of 31st December, 2014. Given its weight, most of the comments below refer to BBVA Compass. This operating segment also covers the assets and liabilities of the BBVA office in New York, which specialises in transactions with large corporations.

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2014, 2013 and 2012:

	<b>As of 31st December</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<i>(In Millions of Euro)</i>		
<b>Total Assets</b> .....	<b>69,261</b>	<b>53,046</b>	<b>53,880</b>
<b>Loans and advances to customers</b> .....	<b>49,667</b>	<b>38,067</b>	<b>36,885</b>
<i>Of which:</i> .....			
Residential mortgages .....	11,876	9,591	84,602
Consumer finance.....	5,812	4,464	4,422
<i>Loans</i> .....	5,291	3,984	3,942
<i>Credit cards</i> .....	522	481	480
Loans to enterprises.....	25,202	19,427	19,292
Loans to public sector.....	3,706	2,772	1,961
<b>Customer deposits</b> .....	<b>51,394</b>	<b>39,844</b>	<b>39,132</b>
Current and savings accounts .....	38,438	29,800	29,060
Time deposits .....	8,853	7,300	7,885
Other customer funds .....	2,803	1,348	775

Loans and advances to customers of this operating segment as of 31st December, 2014 amounted to €49,667 million, a 30.5 per cent. increase from the €38,067 million recorded as of 31st December, 2013, as a result of growth in all of the loan portfolios for this operating segment.

Customer deposits of this operating segment as of 31st December, 2014 amounted to €51,394 million, a 29.0 per cent. increase from the €39,844 million recorded as of 31st December, 2013, mainly due to an increase in the balance of current and saving accounts as a result of campaigns designed to attract deposits.

This operating segment's non-performing assets ratio decreased to 0.9 per cent. as of 31st December, 2014, from 1.2 per cent. as of 31st December, 2013, as a result of a decrease in non-performing loans and a growth of loans and advances to customers. This operating segment non-performing assets coverage ratio increased to 167 per cent. as of 31st December, 2014, from 134 per cent. as of 31st December, 2013, as a result of the decrease in non-performing assets.

## Organisational Structure

As of 31st December, 2014, the Group was made up of 299 consolidated entities and 116 entities accounted for using the equity method.

The companies are principally domiciled in the following countries: Argentina, Belgium, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Ecuador, France, Germany, Ireland, Italy, Luxembourg, Mexico, Netherlands, Netherlands Antilles, Peru, Portugal, Spain, Switzerland, 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, 2014.

Subsidiary	Country of Incorporation	Activity	BBVA Voting Power	BBVA Ownership	Total Assets
					(In Millions of Euro)
					(in Percentages)
BBVA BANCOMER, S.A. DE C.V.....	Mexico	Bank	100.00	99.97	85,940
COMPASS BANK .....	United States	Bank	100.00	100.00	60,911
BANCO PROVINCIAL S.A. – BANCO UNIVERSAL .....	Venezuela	Bank	55.21	55.21	21,157
BBVA SEGUROS, S.A. DE SEGUROS Y REASEGUROS .....	Spain	Insurance	99.95	99.95	18,113
BANCO CONTINENTAL, S.A. ....	Peru	Bank	46.12	46.12	17,542
BANCO BILBAO VIZCAYA ARGENTARIA CHILE, S.A. ....	Chile	Bank	68.18	68.18	16,275
BBVA COLOMBIA, S.A.....	Colombia	Bank	95.43	95.43	14,592
BBVA BANCO FRANCES, S.A. ....	Argentina	Bank	75.96	75.96	6,927
BANCO BILBAO VIZCAYA ARGENTARIA (PORTUGAL), S.A. ....	Portugal	Bank	52.20	47.80	5,203
PENSIONES BANCOMER, S.A. DE C.V. ....	Mexico	Insurance	100.00	100.00	4,583
SEGUROS BANCOMER, S.A. DE C.V...	Mexico	Insurance	100.00	99.97	4,119
BANCO DEPOSITARIO BBVA, S.A. ....	Spain	Bank	100.00	100.00	2,709
BANCO BILBAO VIZCAYA ARGENTARIA URUGUAY, S.A. ....	Uruguay	Bank	100.00	100.00	2,603
BBVA BANCO DE FINANCIACION S.A. ....	Spain	Bank	100.00	100.00	2,159
BBVA VIDA, S.A.DE SEGUROS Y REASEGUROS .....	Spain	Insurance	100.00	100.00	2,151

## 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

	Year ended 31st December		
	2014	2013	2012
(in millions of euro)			
Net interest income .....	14,382	13,900	14,474
Net profit.....	3,082	2,836	2,327

Net profit attributable to parent company .....	2,618	2,084	1,676
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### Consolidated balance sheet data

	As at 31st December		
	2014	2013	2012
	(in millions of euro)		
Total assets.....	631,942	582,697	621,132
Loans and receivables (net).....	372,375	350,945	371,347
Customers' deposits .....	319,060	300,490	282,795
Debt certificates and subordinated liabilities .....	72,191	74,676	98,070
Non-controlling interests .....	2,511	2,371	2,372
Total equity .....	51,609	44,565	43,661

### BOARD OF DIRECTORS

BBVA is managed by a Board of Directors which, in accordance with its current by-laws (*Estatutos Sociales*), must consist of no less than five and no more than fifteen members. All members of the Board of Directors are elected to serve three-year terms. BBVA's Board Regulations state that the Board of Directors must try to ensure that it is comprised of a majority of external 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 Compensation Committee; and the Risk 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 Board of Directors delegates all management functions, except those that it must retain due to legal or statutory requirements, to the Executive Committee.

As of the date of this Offering Circular, the Board of Directors of BBVA is comprised of 14 members. The business address of the Directors of BBVA is Paseo de la Castellana 81, 28046 Madrid.

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

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 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.

Name	Current Position	Date Nominated	Date Re-elected	Present Principal Outside Occupation and Employment History <sup>(*)</sup>
Francisco González Rodríguez <sup>(1)</sup>	Chairman and Chief Executive Officer	28th January, 2000	15th March, 2013	Chairman and CEO of BBVA, since January 2000; Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. and BBVA Bancomer S.A., Institución de Banca Múltiple,

<b>Name</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>
Ángel Cano Fernández <sup>(1)</sup>	President and Chief Operating Officer	29th September, 2009	15th March, 2013	Grupo Financiero BBVA Bancomer. President and Chief Operating Officer of BBVA, since September 2009. Director of Grupo Financiero BBVA Bancomer S.A. de C.V., BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and Türkiye Garanti Bankası A.Ş. BBVA Director of Resources and Means from 2005 to 2009.
Tomás Alfaro Drake <sup>(2)(3)(4)</sup>	Independent Director	18th March, 2006	14th March, 2014	Chairman of the Appointments Committee of BBVA since 25th May, 2010. Director of Internal Development and Professor in the Finance department of Universidad Francisco de Vitoria.
Ramón Bustamante y de la Mora <sup>(5)</sup>	External Director	28th January, 2000	15th March, 2013	Was Director and General Manager and Non-Executive Vice-President of Argentaria and Chairman of Unitaria (1997).
José Antonio Fernández Rivero <sup>(3)(5)(6)</sup>	Independent Director	28th February, 2004	16th March, 2012	Chairman of Risk Committee since 30th March, 2004; in 2001 was appointed Group General Manager until January, 2003. Has been the director representing BBVA on the Boards of Telefónica, Iberdrola, and of Banco de Crédito Local, and Chairman of Adquiria.
Ignacio Ferrero Jordi <sup>(1)(4)</sup>	External Director	28th January, 2000	15th March, 2013	Chairman of the Board of Directors of IDILIA FOODS, S.L., Chairman of the Board of Directors of GRUPO IDILIA, S.L. and member of the Board of AECOC ( <i>Asociación Española de Codificación Comercial</i> ).
Belén Garijo López <sup>(2)</sup>	Independent Director	16th March, 2012	Not applicable	Member of the Executive Board and CEO of Merck Serono, Director of L'Oréal Société Anonyme since 2014 and Chair of the International Executive Committee of PhRMA, ISEC (Pharmaceutical Research and Manufacturers of America) since 2011.
José Manuel González-Páramo Martínez-Murillo	Executive Director	29th May, 2013	14th March, 2014	Executive Director of BBVA since 29th May, 2013. Member of the ECB Governing Council and Executive Committee from 2004 to 2012. Chairman of European DataWarehouse GmbH since 2013.



<b>Name</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>
Carlos Loring Martínez de Irujo <sup>(2)(4)</sup>	Independent Director	28th February, 2004	14th March, 2014	Head of BBVA Global Economics, Regulation and Public Affairs. Chairman of Compensation Committee of BBVA since May, 2010 (former Chairman of the Appointments and Compensation Committee). Was Partner of J&A Garrigues, from 1977 until 2004.
Lourdes Máiz Carro	Independent Director	14th March, 2014	Not applicable	Secretary of the Board of Directors and Director of the Legal Services at Iberia, Líneas Aéreas de España. Joined the Cuerpo de Abogados del Estado (Spanish State Counsel Corps) and from 1992 until 1993 she was Deputy to the Director in the Ministry of Public Administration. From 1993 to 2001 held various positions in the Public Administration.
José Maldonado Ramos <sup>(1)(3)(4)</sup>	External Director	28th January, 2000	16th March, 2012	Was appointed Director and General Secretary of BBVA in January, 2000. Took early retirement as Bank executive in December, 2009.
José Luis Palao García-Suelto <sup>(2)(3)(5)</sup>	Independent Director	1st February, 2011	14th March, 2014	Chairman of the Audit and Compliance Committee of BBVA since 29th March, 2011. Senior Partner of the Financial Division in Spain of Arthur Andersen, from 1979 until 2002. Independent Consultant from 2002 to 2010.
Juan Pi Llorens <sup>(4)(5)</sup>	Independent Director	27th July, 2011	16th March, 2012	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 at IBM Europe and Vice President of the Finance department at GMU (Growth Markets Units) in the PRC. He was executive chairman of IBM Spain.
Susana Rodríguez Vidarte <sup>(1)(3)(5)</sup>	External Director	28th May, 2002	14th March, 2014	Full-time professor of Strategy at the School of Economics and Business Studies at Universidad de Deusto. Member of the Instituto de Contabilidad y Auditoría de Cuentas (Accountants and Auditors Institute) and PhD degree from Universidad de Deusto.

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

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- (1) Member of the Executive Committee
  - (2) Member of the Audit and Compliance Committee
  - (3) Member of the Appointments Committee
  - (4) Member of the Compensation Committee
  - (5) Member of the Risk Committee
  - (6) Lead Independent Director

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

As of 2nd February, 2015, no person, corporation or government beneficially owned, directly or indirectly, 5 per cent. or more of BBVA's shares. 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 2nd February, 2015, there were 964,545 registered holders of BBVA's shares, with an aggregate of 6,224,923,938 shares, of which 488 shareholders with registered addresses in the United States held a total of 1,296,457,023 shares (including shares represented 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**

Several entities of the Group are party to legal actions in a number of jurisdictions (including, among others, Spain, Mexico and the United States) arising in the ordinary course of business. According to the procedural status of these proceedings and the criteria of legal counsel, BBVA considers that none of such actions is material, individually or in the aggregate, and none is expected to result in a material adverse effect on the Group's financial position, results of operations or liquidity, either individually or in the aggregate. The Group's Management believes that adequate provisions have been made in respect of such legal proceedings and considers that the possible contingencies that may arise from such on-going lawsuits are not significant enough to require disclosure to the markets.

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## 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 Offering Circular 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 Royal Legislative Decree 5/2004 of 5th March approving the consolidated text of the Non-Resident Income Tax Law (*Impuesto sobre la Renta de los no Residentes*), as amended by Law 26/2014 of 27th November, Royal Decree 1776/2004 of 30th July approving the Non-Resident Income Tax Regulations, Law 19/1991 of 6th June approving the Wealth Tax Law (*Impuesto sobre el Patrimonio*) and Law 29/1987 of 18th December, 1987 approving the Inheritance and Gift Tax Law (*Impuesto sobre Sucesiones y Donaciones*).

Consideration has also been given to Spanish legislation on the issuance of preferred securities and debt securities (Law 10/2014, and RD 1065/2007 (as amended by Royal Decree 1145/2011), approving the General Regulations relating to tax inspection and management procedures and developing the common rules of the procedures to apply taxes).

#### **Income obtained by Holders who are Non-Resident Income Tax payers in Spain in respect of the Preferred Securities and Common Shares**

Income obtained by Holders who are Non-Resident Income Tax payers in Spain in respect of the Preferred Securities and the Common Shares shall be considered Spanish source income and therefore subject to taxation in Spain under Legislative Royal Decree 5/2004 of 5th March approving the Consolidated Non-Resident Income Tax Law, as amended by Law 26/2014 of 27th November, without prejudice to the provisions contained in any applicable tax treaty for the avoidance of double taxation (**DTT**).

### **Preferred Securities**

#### ***Income not obtained through a permanent establishment in Spain in respect of the Preferred Securities***

Income obtained by Holders who are not tax resident in Spain acting for these purposes without a permanent establishment within Spain is exempt from Non-Resident Income Tax (see “*Taxation – Preferred Securities - 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 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 which may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as of 31st December, 2015.

Legal entities are not subject to Wealth Tax.

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 are located.

#### ***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 (*Impuesto sobre Sucesiones y Donaciones*) 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 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 EU residents following specific rules.

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.

## TAXATION

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According to the literal wording of Article 44.5 of RD 1065/2007, income derived from securities originally registered with the entities that manage clearing systems located outside Spain, that are recognised by Spanish law or by the law of another OECD country (such as DTC, Euroclear or Clearstream), will be paid free of Spanish withholding tax provided that the Paying Agent appointed by the Bank submits a statement to the Bank, the form of which is included in the Agency Agreement, with the following information:

- (i) identification of the securities; and
- (ii) total amount of the income corresponding to each clearing house located outside Spain.

In accordance with Article 44 of RD 1065/2007 as amended by RD 1145/2011, the Paying Agent should provide the Bank with the statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on the date, the entities obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate (20 per cent. as at the date of this Offering Circular and 19 per cent, as of 1st January, 2016) 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 that withholding tax were 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 11 and as otherwise described in this Offering Circular.

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.

### **Common Shares**

#### ***Non-Resident Income Tax payers 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, and therefore a 20 per cent. (and, as of 1st January, 2016, 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 depositary, if any, through which its Common Shares are held, a certificate of tax residence issued by the tax authorities of the country of residence.

- (ii) Taxation of Capital Gains

Capital gains realized 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 the Corporate Income Tax Law (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.

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

### **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. Therefore, such individuals should take into account the value of the Common Shares which they hold as at 31st December, 2015.

### ***Legal entities are not subject to Wealth Tax.***

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 are located.

### **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 (*Impuesto sobre Sucesiones y Donaciones*) 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 3 September 2014 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 EU residents following specific rules.

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.

### 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**).

The Commission's Proposal has very broad scope and could, if introduced in its current form, 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.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1st January, 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Preferred Securities.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Preferred Securities are advised to seek their own professional advice in relation to the FTT.

### EU SAVINGS DIRECTIVE

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24th March, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. National rules for transposing the EU Savings Directive should be adopted by Member States by January 2016. Member States are required to apply these new requirements from 1st January, 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain

## TAXATION

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conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in Austria when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

### 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 DTC, 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 advisors.

### FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to, and accounts maintained for, (i) any non-U.S. financial institution (a foreign financial institution, or FFI (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Bank (a **Recalcitrant Holder**). The Bank is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to foreign passthru payments (a term not yet defined) no earlier than 1st January, 2017. The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction, such as the Bank, generally would not currently be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes on securities such as the Preferred Securities. There can be no assurance, however, that the Bank will be treated as Reporting FI, or that it would not be required to



deduct FATCA Withholding from payments it makes on the Preferred Securities in the future. Under each Model IGA, a Reporting FI is still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Spain have entered into an agreement (the **US-Spain IGA**) based largely on the Model 1 IGA.

Notwithstanding the foregoing, while the Preferred Securities are held within Euroclear or Clearstream, Luxembourg (together, the **ICSDs**), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Preferred Securities by the Bank, any paying agent and the common depositary for the ICSDs, given that each of the entities in the payment chain from (but excluding) the Bank to (and including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Preferred Securities. The documentation expressly contemplates the possibility that the Preferred Securities may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Preferred Securities will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Preferred Securities.**

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## SUBSCRIPTION, SALE AND TRANSFER

The Joint Bookrunners have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 10th February, 2015, jointly and severally 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 Bank will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners 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 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 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 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 regulations thereunder.

Each Joint Bookrunner 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 within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer 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.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the **C Rules**), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each of the Joint Bookrunners will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each of the Joint Bookrunners will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if any of the Joint Bookrunners or such purchaser is within the United States or its possessions or otherwise involve any of the Joint Bookrunners' U.S. office in the offer or sale of Preferred Securities. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

### Spain

Each of the Joint Bookrunners will acknowledge in the Subscription Agreement that the Preferred Securities must not be offered, distributed or sold in Spain to Spanish Residents. No publicity of any kind shall be made in Spain.

### *Prohibition on acquisition of Preferred Securities by Spanish Residents*

As provided in the Conditions, any sale, transfer or acquisition of Preferred Securities to or by Spanish Residents is forbidden in all cases. Any transfer of Preferred Securities to or by Spanish Residents is not permitted and such transfer will be considered null and void by the Bank. Accordingly, the Bank will not recognise any Spanish Resident as a holder or beneficial owner of Preferred Securities for any purpose.

### **United Kingdom**

Each Joint Bookrunner 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.

### **Singapore**

Each of the Joint Bookrunners has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Bookrunners 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 Offering Circular 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 under Section 274 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 (as defined in Section 239(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 (in the case of a corporation) where the transfer arises from an offer referred to in

## SUBSCRIPTION AND SALE

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Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

- (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 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **Hong Kong**

Each Joint Bookrunner 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 Joint Bookrunner has acknowledged that the Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Preferred Securities. Accordingly, each of the Joint Bookrunners 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 Offering Circular 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 Offering Circular 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 Offering Circular 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.

### **General**

No action has been taken by the Bank or any of the Joint Bookrunners 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 Joint Bookrunner 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 will be made on the same terms.

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## GENERAL INFORMATION

1. The Issuer estimates that the expenses related to the admission of the Preferred Securities to trading on the Global Exchange Market are expected to be €5,000.
2. The creation and issue of the Preferred Securities has been authorised by (i) the shareholders' meetings of the Bank, held on 16th March, 2012 and (ii) meetings of the Board of Directors (*Consejo de Administración*) of the Bank, dated 3rd February, 2015.
3. 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.
4. There has been no significant change in the financial or trading position of the Bank and its subsidiaries since 31st December, 2014 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries since 31st December, 2014.
5. 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 inspected during normal business hours at the specified office of each Paying Agent and can be obtained, free of charge, from the Bank at Paseo de la Castellana, 81, 28046 Madrid:
  - (a) the *estatutos sociales* of the Bank (with an English translation thereof);
  - (b) the audited consolidated financial statements of the Bank as at, and for the years ending, 31st December, 2014 and 31st December, 2013;
  - (c) the Agency Agreement; and
  - (d) this Offering Circular.
6. The Bank publishes quarterly unaudited consolidated interim financial statements. The Bank does not publish unconsolidated interim financial statements.
7. The auditors of the Bank and the Group are Deloitte, S.L., registered as auditors on the *Registro Oficial de Auditores de Cuentas* who have audited, without qualification, the financial statements of the Bank and of the Group for each of the three financial years ended 31st December, 2014, 31st December, 2013 and 31st December, 2012. The auditors of the Bank and the Group have no material interest in the Bank or the Group.
8. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. The ISIN for the Bank Preferred Securities is XS1190663952 and the common code is 119066395. The European Clearing Systems are expected to follow certain procedures to facilitate the Bank and the Principal Paying Agent in the collection of the details referred to above. If any European Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such European Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see "*Conditions of the Preferred Securities – Form and*

## GENERAL INFORMATION

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*Status*”). The procedures agreed and fully described in the Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the European Clearing Systems.

9. The Bank does not intend to provide any post-issuance information in relation to the issue of the Preferred Securities.
10. The yield on the Preferred Securities until the First Reset Date is 6.750 per cent. per annum.
11. The Common Shares are listed on the Spanish Stock Exchanges, which are regulated markets for the purposes of MiFID, and are 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).
12. Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Bank and its affiliates in the ordinary course of business.

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