

IMPORTANT NOTICE

THE 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.

THE 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**), Goldman Sachs International and Merrill Lynch International (together, the **Global Coordinators and Joint Bookrunners**), Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner), Credit Suisse Securities (Europe) Limited, HSBC Bank plc, J.P. Morgan Securities plc and Société Générale (together with the **Global Coordinators and Joint Bookrunners**, the **Joint Bookrunners**) as a result of such access. If you are not the intended recipient of this message and/or you are not eligible to view the Offering Circular and/or you do not agree to the terms described in this notice, you may not view the attached Offering Circular.

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 FROM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE 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

THE 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 THE 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 Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (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 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 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 the 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 8th April, 2016



Banco Bilbao Vizcaya Argentaria, S.A.

(incorporated with limited liability under the laws of Spain)

Series 4 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible

Perpetual Preferred Tier 1 Securities

Issue price: 100 per cent.

The Series 4 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference each (the **Preferred Securities**) are being issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank** or **BBVA**) on 14th April, 2016 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Group**.

The Preferred Securities will accrue non-cumulative cash distributions (**Distributions**) (i) in respect of the period from (and including) the Closing Date to (but excluding) 14th April, 2021 (the **First Reset Date**) at the rate of 8.875 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 9.177 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 14th January, 14th April, 14th July and 14th October 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 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 (but excluding) the date of payment of the liquidation distribution.

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

The Preferred Securities 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, S.A. (**Clearstream, Luxembourg**).

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see “Risk Factors” beginning on page 8.

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 Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (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 and Joint Bookrunners

BofA Merrill Lynch

Goldman Sachs International

Joint Bookrunners

Banco Bilbao Vizcaya Argentaria, S.A.

Credit Suisse

(no underwriting commitment)

HSBC

J.P. Morgan

Société Générale Corporate & Investment Banking

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 incorporated herein by reference (see “Documents Incorporated by Reference”). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

*Goldman Sachs International and Merrill Lynch International (together, the **Global Coordinators and Joint Bookrunners**), Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner), Credit Suisse Securities (Europe) Limited, HSBC Bank plc, J.P. Morgan Securities plc and Société Générale (together with the Global Coordinators 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.

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; references to **\$**, **U.S. dollars** or **U.S.\$** are to the currency of the United States; and references to **Turkish lira** and **TL** refer to the lawful currency for the time being of the Republic of Turkey.*

Words and expressions defined in the Conditions (see "Conditions of the Preferred Securities") shall have the same meanings when used elsewhere in this 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 June 2015, the U.K. Financial Conduct Authority (the **FCA**) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 which took effect from 1st October, 2015 (the **PI Instrument**). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the **PI Rules**):*

- (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Preferred Securities, must not be sold to retail clients in the EEA; and*
- (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI 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 Bank and the Joint Bookrunners are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Preferred Securities (or a beneficial interest in such Preferred Securities) from the Bank and/or any Joint Bookrunners, each prospective investor will be deemed to represent, warrant, agree with and undertake to the Bank 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 PI Rules);*

(b) *whether or not it is subject to the PI Rules, it will not:*

(A) *sell or offer the Preferred Securities in Spain or to any Spanish Resident or retail clients in any other jurisdiction of the EEA; or*

(B) *communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Preferred Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by any Spanish Resident or a retail client in any other jurisdiction of the EEA (in each case within the meaning of the PI Rules),*

in any such case other than (i) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) 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 PI Rules by any person and/or (ii) in relation to any sale of or offer to sell Preferred Securities (or any beneficial interests therein) 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 (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Preferred Securities (or such beneficial interests therein) 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 (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Preferred Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.*

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

PROHIBITION ON OFFER, DISTRIBUTION OR SALE OF PREFERRED SECURITIES IN SPAIN OR TO SPANISH RESIDENTS OR ANY SALE, TRANSFER OR ACQUISITION OF PREFERRED SECURITIES TO OR BY SPANISH RESIDENTS

The Preferred Securities must not be offered, distributed or sold in Spain, or to Spanish Residents (as defined in the Conditions) 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.

PRESENTATION OF FINANCIAL INFORMATION

ACCOUNTING PRINCIPLES

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19th July, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1st January, 2005 in conformity with International Financial Reporting Standards adopted by the European Union (**EU-IFRS**). The Bank of Spain issued Circular 4/2004 of 22nd December, 2004 on Public and Confidential Financial Reporting Rules and Formats (as amended or supplemented from time to time, **Circular 4/2004**), which requires Spanish credit institutions to adapt their accounting system to the principles derived from the adoption by the European Union of EU-IFRS.

BBVA's consolidated financial statements as at and for each of the years ending 31st December, 2015, 31st December, 2014 and 31st December, 2013 (the **Consolidated Financial Statements**), as included in the annual report of BBVA on Form 20-F for the fiscal year ended 31st December, 2015 filed with the U.S. Securities and Exchange Commission (the **SEC**) on 6th April, 2016 (the **Form 20-F**), which is incorporated by reference in this Offering Circular, have been prepared in accordance with EU-IFRS reflecting Circular 4/2004 and any other legislation governing financial reporting applicable to the Group and in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (**IFRS-IASB**).

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 leases.
- 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.

STABILISATION

In connection with the issue of the Preferred Securities, Merrill Lynch International 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.

SPANISH TAX RULES

Article 44 of Royal Decree 1065/2007 of 27th July, as amended by Royal Decree 1145/2011 of 29th July (as so amended, **RD 1065/2007**), sets out the reporting obligations applicable to preference shares and debt instruments (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. Neither the Bank nor any of the Joint Bookrunners assume any responsibility therefor.

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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

Macroeconomic Risks

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

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

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

- weak economic growth or recession in the countries where it operates;
- deflation, mainly in Europe, or significant inflation, such as the significant inflation recently experienced by Venezuela and Argentina;
- changes in foreign exchange rates, such as the recent local currency devaluations in Venezuela and Argentina, as they result in changes in the reported earnings of the Group's subsidiaries outside the Eurozone, and their assets, including their risk-weighted assets, and liabilities;
- a lower interest rate environment, even a prolonged period of negative interest rates in some areas where the Bank operates, which could lead to decreased lending margins and lower returns on assets; or a higher interest rate environment, including as a result of an increase in

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interest rates by the Federal Reserve, which could affect consumer debt affordability and corporate profitability;

- any further tightening of monetary policies, including to address upward inflationary pressures in Latin America, which could endanger a still tepid and fragile economic recovery and make it more difficult for customers of the Group's mortgage and consumer loan products to service their debts;
- adverse developments in the real estate market, especially in Spain, Mexico, the United States and Turkey, given the Group's exposures to such markets;
- poor employment growth and structural challenges restricting employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect the household income levels of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan losses;
- lower oil prices, which could particularly affect producing areas, such as Venezuela, Mexico, Texas or Colombia, to which the Group is materially exposed;
- uncertainties arising from the results of election processes in the different geographies in which the Bank operates, such as Spain and the Spanish region of Catalonia, which may ultimately result in changes in laws, regulations and policies;
- the potential exit by an EU Member State from the European Monetary Union (EMU), which could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects;
- uncertainty surrounding the referendum to be held in the United Kingdom (UK) on 23rd June, 2016, which may result in the UK leaving the European Union; and
- an eventual government default on public debt, which could affect the Group primarily in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several countries in which the Group operates;

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

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

Since the 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

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gross domestic product (**GDP**) contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. While the current account imbalance has now been corrected (with GDP growth of 3.2 per cent. in 2015) and the public deficit is diminishing, real or perceived difficulties in servicing public or private debt could increase Spain's financing costs. In addition, unemployment levels continue to be high and a change in the current recovery of the labor market would adversely affect households' gross disposable income.

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

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

Since the Bank is a Spanish company with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. As a result, any decline in the Kingdom of Spain's sovereign credit ratings could result in a decline in the Bank's credit ratings.

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

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

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

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

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

If economic conditions in the emerging market economies where the Group operates deteriorate, the Group's business, financial condition and results of operations could be materially adversely affected.

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

Severe market events such as the past sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures in recent years. In particular, negative growth expectations and lack of confidence that policy changes would solve problems led to steep falls in asset values and a severe reduction in market liquidity in 2012 and 2013, followed by a moderated recovery in 2014 and the first half of 2015. In the second half of 2015 and the beginning of 2016, however, the uncertainty about China's growth expectations and its policymaking capability to address certain severe future challenges resulted in sudden and intense deterioration of the valuation of global assets and further increased volatility in the global financial markets. Additionally, in dislocated markets, hedging and other risk management strategies may not be as effective as they are in more normal market conditions due in part to the decreasing credit quality of hedge counterparties. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

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

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

Legal, Regulatory and Compliance Risks

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. In response to the global financial crisis and the European sovereign debt crisis, governments, regulatory authorities and others have made and continue to make proposals to reform the regulatory framework for the financial services industry to enhance its resilience against future crises. Legislation has already been enacted and regulations issued in response to some of these proposals. The regulatory framework for financial institutions is likely to undergo further significant change. This creates significant uncertainty for the Bank and the financial industry in general. The wide range of recent actions or current proposals includes, among other things, provisions for more stringent regulatory capital and liquidity standards, restrictions on compensation practices, special bank levies and financial transaction taxes, recovery and resolution powers to intervene in a crisis including "bail-in" of creditors, separation of certain businesses from deposit taking, stress testing and capital planning

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regimes, heightened reporting requirements and reforms of derivatives, other financial instruments, investment products and market infrastructures.

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

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

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

Any required changes to the Bank's business operations resulting from the legislation and regulations applicable to such business could result in significant loss of revenue, limit the Bank's ability to pursue business opportunities in which the Bank might otherwise consider engaging, affect the value of assets that the Bank holds, require the Bank to increase its prices and therefore reduce demand for its products, impose additional costs on the Bank or otherwise adversely affect the Bank's businesses. For example, the Bank is subject to substantial regulation relating to liquidity. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the 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.

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.

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

As a Spanish credit institution, the Bank is subject to Directive 2013/36/EU, of 26th June, of the European Parliament on access to credit institution and investment firm activities and on prudential supervision of credit institutions and investment firms (the **CRD IV Directive**) that replaced

Directives 2006/48 and 2006/49 through which the EU began implementing the Basel III capital reforms, with effect from 1st January, 2014, with certain requirements in the process of being phased in until 1st January, 2019. The core regulation regarding the solvency of credit entities is Regulation (EU) No. 575/2013, of 26th June, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the **CRR** and together with the CRD IV Directive and any CRD IV Implementing Measures, **CRD IV**), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU member states, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013 of 29th November (**RD-L 14/2013**), Law 10/2014, Royal Decree 84/2015 of 13th February (**RD 84/2015**), Bank of Spain Circular 2/2014 of 31st January and Bank of Spain Circular 2/2016 of 2nd February (the **Bank of Spain Circular 2/2016**).

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

The capital conservation buffer and the G-SIB buffer (where applicable) are mandatory for credit institutions.

The global systemically important institutions buffer applies to those institutions included on the list of global systemically important banks (**G-SIBs**), which is updated annually by the Financial Stability Board (the **FSB**). The Bank has been excluded from this list with effect from 1st January, 2017 and so, unless otherwise indicated by the FSB (or the Bank of Spain) in the future, it will only be required to maintain the G-SIB buffer for 2016.

The Bank of Spain has greater discretion in relation to the institution-specific countercyclical buffer, the buffer for other systemically important institutions (those institutions deemed to be of local systemic importance, domestic systemically important banks or **D-SIBs**) and the systemic risk buffer (a buffer to prevent systemic or macro prudential risks). With the entry into force of the Single Supervisory Mechanism (the **SSM**) on 4th November, 2014, the European Central Bank (the **ECB**) also has the ability to provide certain recommendations in this respect.

The Bank of Spain agreed in December 2015 to set the institution-specific countercyclical buffer applicable to credit exposures in Spain at 0 per cent. from 1st January, 2016. The percentages will be revised each quarter and, accordingly, the Bank of Spain agreed in March 2016 to maintain the countercyclical capital buffer at 0 per cent. for the second quarter of 2016.

Moreover, Article 104 of the CRD IV Directive, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No 1024/2013 of 15th October, 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the **SSM Regulation**), also 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” “Pillar 1” requirements under CRD IV or to address macro-prudential considerations.

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Bank and the Group within the SSM. The ECB is required under the SSM

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Regulation to carry out a supervisory review and evaluation process (the **SREP**) at least on an annual basis.

In addition to the above, the European Banking Authority (the **EBA**) published on 19th December, 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in this were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional "Pillar 2" own funds requirements to be implemented from 1st January, 2016. Under these guidelines, national supervisors should set a composition requirement for the "Pillar 2" requirements to cover certain specified risks of at least 56 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 the "combined buffer requirement" and/or additional macro-prudential requirements.

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

As a result of the most recent SREP carried out by the ECB in 2015, the Bank has been informed by the ECB that it is required to maintain a CET1 phased-in capital ratio of 9.5 per cent. (both on a consolidated and individual basis). This CET1 capital ratio of 9.5 per cent. includes (i) the minimum CET1 capital ratio required under "Pillar 1" (4.5 per cent.), (ii) the additional own funds requirement under "Pillar 2" and (iii) the capital conservation buffer (0.625 per cent. phased-in and 2.5 per cent. fully loaded).

Further, the Bank is required to maintain during 2016 a G-SIB buffer of 0.25 per cent. on a consolidated basis. Therefore, its minimum CET1 phased-in capital requirement for 2016 will be 9.75 per cent. on a consolidated basis.

Following the Bank's exclusion from the G-SIB list of the FSB effective on 1st January, 2017, the G-SIB buffer will, unless otherwise indicated by the FSB or the Bank of Spain in the upcoming annual reviews, no longer apply to the Bank from this date. However, the Bank of Spain has communicated to the Bank that it will be considered a D-SIB.

The D-SIB buffer imposes on the Bank an additional CET1 capital requirement of 0.5 per cent. on a consolidated basis, which will be phased-in from 1st January, 2016 to 1st January, 2019. However, in accordance with the criteria set out by the Regulator, the Bank will not be required to maintain the D-SIB buffer during 2016 because the requirements for the G-SIB buffer (which will continue to apply to the Bank during 2016) exceed those of the D-SIB buffer. The Bank will be required instead to maintain a D-SIB buffer as of 1st January, 2017. Some or all of the other buffers may also apply to the Bank and/or the Group from time to time as determined by the Regulator.

As of 31st December, 2015, BBVA's CET1 phased-in capital ratio was 12.1 per cent. on a consolidated basis and 17.8 per cent. on an individual basis. Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements ("Pillar 1" plus "Pillar 2" plus "combined buffer requirement") imposed on the Bank and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further "Pillar 2" additional own funds requirements on the Bank and/or the Group.

Any failure by the Bank and/or the Group to maintain its "Pillar 1" minimum regulatory capital ratios, any "Pillar 2" additional own funds requirements and/or any "combined buffer requirement" could

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result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group's results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the "Pillar 2" framework or any other capital requirements to which the Bank and/or the Group is or becomes subject (including the "combined buffer requirement"), may result in the imposition of restrictions or prohibitions on "discretionary payments" by the Bank as discussed below and the possible cancellation of Distributions on the Preferred Securities (in whole or in part).

According to Article 48 of Law 10/2014, Article 73 of RD 84/2015 and Rule 24 of Bank of Spain Circular 2/2016, an entity that is not meeting its "combined buffer requirement" is required to determine its Maximum Distributable Amount (i.e. to calculate the "distributable profits" of that entity in accordance with CRD IV and multiply the amount of those "distributable profits" by a factor dependent on the extent of the entity's shortfall in CET1 capital, which is then the Maximum Distributable Amount of the entity). Until the Maximum Distributable Amount has been calculated and communicated to the Bank of Spain, the relevant entity will be subject to restrictions on (i) distributions relating to CET1 capital, (ii) payments in respect of variable remuneration or discretionary pension revenues and (iii) distributions relating to Additional Tier 1 instruments (**discretionary payments**) and, thereafter, any such discretionary payments by that entity will be subject to such Maximum Distributable Amount. Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014 aimed at strengthening own funds or limiting or prohibiting the distribution of dividends respectively will also restrict discretionary payments to such Maximum Distributable Amount.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16th December, 2015 (the **December 2015 EBA Opinion**), in the EBA's opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the "combined buffer requirement" for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the "Pillar 1" and "Pillar 2" own funds requirements of the institution. In addition, the December 2015 EBA Opinion advises the European Commission (i) to review Article 141 of the CRD IV Directive with a view to avoiding differing interpretations of Article 141(6) and ensure greater consistency between the maximum distributable amount framework and the capital stacking order described in the opinion and in the EBA SREP Guidelines by which the "Pillar 1" and "Pillar 2" capital requirements represent the minimum capital to be preserved at all times by an institution and it is only the CET1 capital of that institution not used to meet its "Pillar 1" and "Pillar 2" requirements that is then available to meet the "combined buffer requirement" of the institution and (ii) to review the prohibition on distributions in all circumstances where an institution fails to meet the "combined buffer requirement" and no profits are made in any given year, notably insofar as it relates to Additional Tier 1 instruments. There can be no assurance as to how and when binding effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements.

The ECB has also set out in its recommendation of 17th December, 2015 on dividend distribution policies, that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements.

See further "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements may restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. However, many aspects of the manner in which such restrictions will be implemented remain uncertain*" below.

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Any failure by the Bank and/or the Group to comply with its regulatory capital requirements could also result in the imposition of further “Pillar 2” requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of 18th June on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015, de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*) (**Law 11/2015**), which, together with Royal Decree 1012/2015 of 6th November (**RD 1012/2015**) has implemented Directive 2014/59/EU of 15th May establishing a framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**) into Spanish law.

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, which applied from 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.

Basel III implementation differs across jurisdictions in terms of timing and applicable rules. For example, the Mexican government introduced the Basel III capital standards in 2012 whereas Basel III became effective in the United States on 1st January, 2015 for credit institutions with total consolidated assets of less than U.S.\$250 billion. This lack of uniformity among implemented rules may lead to an uneven playing field and to competition distortions. Moreover, the lack of regulatory coordination, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect a bank with global operations such as the Bank and could undermine its profitability.

There can be no assurance that the implementation of the above capital requirements will not adversely affect the Bank's ability to pay 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.

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

On 19th November, 2014, the Bank entered into agreements for the acquisition from Doğu Holding A.Ş. and Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk, respectively, of 62,538,000,000 shares of Türkiye Garanti Bankası A.Ş. (**Garanti**) in the aggregate (see “*Item 10. Additional Information – Material Contracts*” of the Form 20-F). The acquisition was conditional on obtaining all necessary regulatory consents from the relevant Turkish, Spanish, European Union and, if applicable, other jurisdictions’ regulatory authorities and was completed in July 2015. Following completion of this acquisition, the Bank fully consolidated Garanti in the consolidated financial statements of the Group. The consolidation of Garanti may result in an incremental increase in the capital requirements imposed on the Group by the ECB through the SSM.

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

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

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The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Preferred Securities (including secondary market transactions) in certain circumstances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. 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 took 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 and fully assumed its resolution powers on 1st January, 2016. The Single Resolution Fund has also been in place since 1st January, 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's 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 effect 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 implemented into Spanish law through Law 11/2015 and RD 1012/2015.

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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 is aimed at ensuring the harmonisation between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd-Frank Act (also known as the Volcker Rule) and a mechanism to potentially require the separation of trading activities (including market making), such as in the Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

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

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

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

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

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

Although the Bank has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Bank's employees, directors, officers, partners, agents and service providers will not take actions in violation of our policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Bank or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Bank, limits being placed on the Bank's activities, the Bank's authorisations and licenses being revoked, damage to the Bank's reputation and other consequences that could have a material adverse effect on the Bank's business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

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

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

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

Liquidity and Financial Risks

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

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

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

In addition, corporate and institutional counterparties may seek to reduce aggregate credit exposures to the Bank (or to all banks), which could increase the Group's cost of funding and limit its access to liquidity. The funding structure employed by the Group may also prove to be inefficient, thus giving

rise to a level of funding cost where the cumulative costs are not sustainable over the longer term. The funding needs of the Group may increase and such increases may be material to the Group's business, financial condition and results of operations.

Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for the Group to fund its business on favourable terms 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 Bank's activities in Spain. Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures.

Implementation of internationally accepted liquidity ratios might require changes in business practices that affect the profitability of the Bank's business activities

The liquidity coverage ratio (LCR) is a quantitative liquidity standard developed by the Basel Committee on Banking Supervision (BCBS) to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS and, since January 2015, is being phased-in until 2019. Currently the banks to which this standard applies must comply with a minimum LCR requirement of 60 per cent. and gradually increase the ratio by 10 percentage points per year to reach 100 per cent. by January 2019.

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

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

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

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

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

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

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

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

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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). For more information please see Note 24 of the Consolidated Financial Statements.

The Group faces liquidity risk in connection with its ability to make payments on these unfunded amounts which it seeks to mitigate, with respect to "Post-employment benefits", by maintaining insurance contracts which were contracted with insurance companies owned by the Group. The insurance companies have recorded in their balance sheets specific assets (fixed interest deposit and bonds) assigned to the funding of these commitments. The insurance companies also manage derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. The Group seeks to mitigate liquidity risk with respect to "Early retirements" and "Post-employment welfare benefits" through oversight by the Assets and Liabilities Committee (ALCO) of the Group. The Group's ALCO manages a specific asset portfolio to mitigate the liquidity risk resulting from the payments of these commitments. These assets are government and covered bonds which are issued at fixed interest rates with maturities matching the aforementioned commitments. The Group's ALCO also manages derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. Should 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.

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

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

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

In recent years, households and businesses have reached a high level of indebtedness, particularly in Spain, which has created increased risk in the Spanish banking system. In addition, the high proportion of loans referenced to variable interest rates makes (i) debt service on such loans more vulnerable to upward movements in interest rates and (ii) the profitability of the loans more vulnerable to interest rate decreases. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on the Group's loan portfolio and, as a result, on its financial condition and results of operations. Moreover, the increase in households' and businesses' indebtedness also limits their

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ability to incur additional debt, reducing the number of new products the Group may otherwise be able to sell to them and limiting the Group's ability to attract new customers who satisfy its credit standards, which could have an adverse effect on the Group's ability to achieve its growth plans.

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

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

Business and Industry Risks

The Group faces increasing competition in its business lines

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

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

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

The Group faces risks related to its acquisitions and divestitures

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

The Group's results of operations could also be negatively affected by acquisition or divestiture-related charges, 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 (including proceedings on the potential retroactivity of compensation payable to customers regarding certain mortgages clauses), the financial outcome of which is unpredictable, particularly where the claimants seek unspecified or undeterminable damages, or where the cases argue novel legal theories, involve a large number of parties or are at early stages of discovery. An adverse outcome or settlement in these proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, cash flows, results of operations and reputation.

In addition, responding to the demands of litigation may divert management's time and attention and financial resources. While the Group 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 Form 20-F and Note 23 to the Bank's Consolidated Financial Statements for additional information on the Group's legal, regulatory and arbitration proceedings.

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

The Group operates commercial banks and insurance and other financial services companies in various countries and its overall success as a global business depends upon its ability to succeed in differing economic, social and political conditions. The Group is particularly sensitive to developments in Mexico, the United States, Turkey and Argentina, which represented 13.2 per cent., 11.5 per cent., 11.9 per cent. and 1 per cent. of the Group's assets as at 31st December, 2015, respectively.

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

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

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

On 1st November, 2010, the Bank entered into a shareholders' agreement with Doğuř Holding A.ř., Doğuř Nakliyat ve Ticaret A.ř. and Doğuř Arařtırma Geliřtirme ve Müşavirlik Hizmetleri A.ř. (the **Doğuř Group**), in connection with the acquisition of its initial interest in Garanti (the **original SHA**). On 19th November, 2014, the Bank and the Doğuř Group entered into an agreement that amends and restates the original SHA and which came into force upon completion of the Bank's acquisition of an additional 14.89 per cent. interest in Garanti (the **amended and restated SHA**).

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 Doğuř 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 Doğuř Group's consent.

If the Bank and the Doğuř Group are unable to agree on such reserved matters, Garanti's business, financial condition and results of operations 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 Doğuř Group, which is one of the largest Turkish conglomerates with business interests in the financial services, construction, tourism and automotive sectors, any financial reversal, negative publicity or other adverse circumstance relating to the Doğuř Group could adversely affect Garanti or the Bank.

Financial and Risk Reporting

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

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

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

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

The preparation of financial statements in accordance with EU-IFRS requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse effect on the Group's business, financial condition and results of operations.

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

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

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

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

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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 ratios or the CET1 Capital of the Bank or the Group or the Risk Weighted Assets Amount of the Bank or the Group. Furthermore, because the occurrence of the Trigger Event and restrictions on Distributions where subject to a Maximum Distributable Amount depends, in part, on the calculation of these ratios and capital measures, any change in Spanish laws or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Trigger Event has actually occurred and/or whether Distributions on the Preferred Securities are subject to restrictions.

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

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

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

The Preferred Securities may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any Preferred Securities

The BRRD (which has been implemented in Spain through Law 11/2015 and RD 1012/2015) is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in unsound or failing credit institutions or investment firms (each an **institution**) so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

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

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

The **Spanish Bail-in Power** is any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with any laws, regulations, rules or requirements in effect in Spain, relating to the transposition of the BRRD, as amended from time to time, including, but not limited to (i) Law 11/2015, as amended from time to time, (ii) RD 1012/2015, as amended from time to time, (iii) the SRM Regulation, as amended from time to time, and (iv) any other instruments, rules or standards made in connection with either (i), (ii) or (iii), pursuant to which any obligation of an institution can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such institution or any other person (or suspended for a temporary period).

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

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

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The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015 Holders of Preferred Securities may be subject to, among other things, a write-down and/or conversion into equity or other securities or obligations of the Preferred Securities on any application of the Spanish Bail-in Power and may also be subject to any Non-Viability Loss Absorption. The exercise of any such powers (or any of the other resolution powers and tools) may result in such Holders losing some or all of their investment or otherwise having their rights under the Preferred Securities adversely affected, including by becoming holders of further subordinated instruments. Moreover, the exercise of the Spanish Bail-in Power with respect to the Preferred Securities or the taking by an authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of Holders of Preferred Securities, the market price or value or trading behaviour of the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

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

This uncertainty may adversely affect the value of the Preferred Securities. The price and trading behaviour of the Preferred Securities may be affected by the threat of a possible exercise of any power under Law 11/2015 (including any early intervention measure before any resolution) or any suggestion of such exercise, even if the likelihood of such exercise is remote. Moreover, the Relevant Spanish Resolution Authority may exercise any such powers without providing any advance notice to the Holders of the Preferred Securities.

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

Minimum requirement for own funds and eligible liabilities (MREL). Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities

The BRRD prescribes that banks shall hold a minimum level of capital and eligible liabilities in relation to total liabilities (known as MREL). On 3rd July, 2015 the EBA published the final draft technical standards on the criteria for determining MREL (the **Draft MREL Technical Standards**). The level of capital and eligible liabilities required under MREL will be set by the resolution authority for each bank (and/or group) based on certain criteria including systemic importance. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

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The MREL requirement came into force on 1st January, 2016. However, the EBA has recognised the impact which this requirement may have on banks' funding structures and costs. Therefore, it has proposed a long phase-in period of up to 48 months (four years) until 2020.

On 9th November, 2015 the FSB published its final Total Loss-Absorbing Capacity (TLAC) Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet requires a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of risk weighted assets as of 1st January 2019 and 18 per cent. as of 1st January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1st January 2019, and 6.75 per cent. as of 1st January, 2022. As of the date of this Offering Circular, the Bank is not classified as a G-SIB by the FSB. However, if the Bank were to be so classified in the future or if TLAC requirements are adopted and implemented in Spain, and extended to non G-SIBs through the imposition of similar MREL requirements as set out below, then this could create additional minimum capital requirements for the Bank.

In this regard, the EBA will submit a report to the European Commission by 21st October, 2016, which reviews the application of MREL and seeks to bring its implementation closer to that of the TLAC requirement that was published by the FSB in November 2015 and that applies to G-SIBs. On the basis of this report the European Commission may, if appropriate, submit by 31st December, 2016 to the European Parliament and the Council a legislative proposal on the harmonised application of MREL, with the possibility of introducing more than one harmonised minimum MREL, and to make any appropriate adjustments to the parameters of this requirement.

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

The Draft MREL Technical Standards do not provide details on the implications of a failure by an institution to comply with its MREL requirement. However, if the approach set out by the FSB in the TLAC Principles and Term Sheet is adopted in respect of MREL then a failure by an institution to comply with MREL would be treated in the same manner as a failure to meet minimum regulatory capital requirements (see “ - *Increasingly onerous capital requirements may have a material adverse effect on the Bank's business, financial condition and results of operations*” above).

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

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

Upon the occurrence of the Trigger Event, the Preferred Securities will be irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) converted (which calculation is made by the Bank and shall be binding on the Holders) into newly issued Common Shares. Because the Trigger Event will occur when the CET1 ratio of the Bank or the Group will have

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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 Trigger Event.

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

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

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

As a result, the Preferred Securities will also be converted into Common Shares in the event of a Capital Reduction notwithstanding that the Trigger Event has not occurred. **However, each Holder will have the right to elect that its Preferred Securities shall not be converted on such Capital Reduction by delivery of a duly completed and signed Election Notice as provided in Condition 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 *“Holders will bear the risk of fluctuations in the price of the Common Shares and/or movements in the CET1 ratio that could give rise to the occurrence of the Trigger Event”* below.

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

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

Furthermore, the occurrence of the Trigger Event depends, in part, on the calculation of the CET1 ratio, which can be affected, among other things, by the growth of the Bank's business and its future

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

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

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

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

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

Furthermore, in accordance with Condition 5.11 any costs incurred by the Settlement Shares Depository or any parent, subsidiary or affiliate of the Settlement Shares Depository in connection with the holding by the Settlement Shares Depository of any Common Shares and any amount received in respect thereof shall be deducted by the Settlement Shares Depository from such amount prior to the delivery of such Common Shares and payment of such amount to the relevant Holder.

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 may give its consent to a redemption or repurchase of the Preferred Securities in such circumstances provided that either of the following conditions is met:

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

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

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

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

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank (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 12, 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

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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 redemption of the Preferred Securities for tax reasons, 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.

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

No Distribution will also be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the 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 may restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. However, many aspects of the manner in which such restrictions will be implemented remain uncertain*” below.

There can, therefore, be no 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.

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

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

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

CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements may restrict the Bank from making payments of Distributions on the Preferred Securities in certain circumstances, in which case the Bank will cancel such Distributions. However, many aspects of the manner in which such restrictions will be implemented remain uncertain.

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 MREL (and, if applicable, any TLAC requirement). The Bank may also decide to hold additional capital.

CRD IV further introduces capital buffer requirements that form a “combined buffer requirement” that is in addition to the above minimum capital requirements and is required to be satisfied with CET1 capital. As set out in the December 2015 EBA Opinion and as further discussed above, in the EBA’s opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the “combined buffer requirement” for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the “Pillar 1” and “Pillar 2” own funds requirements of the institution. There can be no assurance as to how and when effect will be given to the December 2015 EBA Opinion in Spain, including as to the consequences for an institution of its capital levels falling below those necessary to meet these requirements.

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

In accordance with Article 73 of RD 84/2015 and Rule 24 of the Bank of Spain Circular 2/2016, 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

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generated since the last annual decision on the distribution of profits. Such calculation will result in a “Maximum 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 payments will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement 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.

Pending clarification of the above provisions, there are a number of factors that make the determination and application of the “Maximum Distributable Amount” particularly complex, including the following:

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

These and other possible issues of interpretation make it difficult to determine how the “Maximum Distributable Amount” will apply as a practical matter to limit Distributions on the Preferred Securities. This uncertainty and the resulting complexity may adversely impact the market price and liquidity of the Preferred Securities.

Whether Distributions on the Preferred Securities may be subject to a Maximum Distributable Amount as a result of a breach of the “combined buffer requirement” will depend, among other things, on the amount of CET1 capital and “distributable profits” of the Bank and/or the Group, as applicable, which can be affected by, among other things, decisions taken by the Group in relation to its businesses and operations, as well as the management of its capital position and dividends,

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distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities, and other such considerations similar to those discussed above in relation to the circumstances that may give rise to a Trigger Event. See "*The circumstances that may give rise to a Trigger Event are unpredictable*" above. Holders will not have any claim against the Bank or any other member of the Group in relation to any such decision.

There can further be no assurance that the respective levels of the applicable "Pillar 1" or "Pillar 2" capital requirements, 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 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, any TLAC requirements and/or MREL will also be considered to comprise part of an institution's minimum "own funds" requirements, thereby making compliance with the "combined buffer requirement" more demanding and increasing the risk of cancellation (in whole or in part) of Distributions on the Preferred Securities. See further "*Minimum requirement for own funds and eligible liabilities (MREL). Any failure by the Bank and/or the Group to comply with its MREL could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including the payment of Distributions on the Preferred Securities*" 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.

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

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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 rights attaching to the Common Shares nor an undertaking restricting issues of new share capital with preferential rights relative to the Preferred Securities.

Further, if the Bank issues any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares and such Dividend does not constitute an Extraordinary Dividend, no Floor Price adjustment

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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 direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2.2 in accordance with Additional Provision 14.2° of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law. For these purposes as of the date of this Offering Circular and according to Additional Provision 14.2° of Law 11/2015, the ranking of the Preferred Securities, any Parity Securities and any other subordinated obligations of the Bank may depend on whether those obligations constitute at the relevant time an Additional Tier 1 Instrument or a Tier 2 Instrument of the Bank or a subordinated obligation of the Bank not constituting Additional Tier 1 Capital or Tier 2 Capital of the Bank. See Condition 2.2 for the complete provisions regarding the ranking of the Preferred Securities.

In addition, if the Bank were wound up, liquidated or dissolved, the Bank's liquidator would first apply the assets of the Bank to satisfy all claims of holders of unsubordinated obligations of the Bank and other subordinated 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 Shares subsequently delivered. In addition, the Bank may, at any time following the Notice Cut-Off Date and prior to the 10th Business Day after the Conversion Settlement Date (save as provided

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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 the consolidated text of the Securities Market Law (*Ley del Mercado de Valores*) approved by Royal Legislative Decree 4/2015, of 23rd October, as amended and Royal Decree 1066/2007, of 27th July, 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 incurrence by Holders of substantial fines and/or suspension of voting rights associated with the Common Shares.

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

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 incurrence of any such further indebtedness may reduce the 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

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Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Common Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

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

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

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

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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

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.

Spanish tax rules

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. The procedures apply to interest deriving from preference shares and debt instruments to which Law 10/2014 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

According to the literal wording of Article 44.5 of RD 1065/2007 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;
- (ii) payment date;
- (iii) total amount of income paid on the relevant date; and
- (iv) 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.

In accordance with Article 44 of RD 1065/2007, the 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 of 19 per cent. on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

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

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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 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 (see “*Taxation – U.S. Foreign Account Tax Compliance Act Withholding*”). 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 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**) are generally 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.

Withholding under the EU Savings Directive

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

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). 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).

On 10th November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1st January 2017 in the case of Austria and from 1st January 2016 in the

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case of all other EU Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU 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 Preferred Securities) nor any other person would be obliged to pay additional amounts with respect to any Preferred Security as a result of the imposition of such withholding tax. The Bank is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings 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 an active trading market does not develop or is not maintained, the market price and liquidity of the Preferred Securities may be adversely affected. 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.

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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.

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 real or anticipated 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.

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

A credit rating is not a recommendation to buy, sell or hold securities and may be revised 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 information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

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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.

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.

| | |
|--------------------------------|---|
| Issuer: | Banco Bilbao Vizcaya Argentaria, S.A. |
| Risk Factors: | 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 economic conditions in the countries where the Group operates, the Spanish economy and the real estate market and risks relating to increasingly onerous capital requirements, the 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> ". |
| Issue size: | €1,000,000,000 |
| Issue details: | <p>Series 4 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 Liquidation Preference each.</p> <p>The Bank 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> |
| Liquidation Preference: | €200,000 per Preferred Security. |
| 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. |
| Distributions: | 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 8.875 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 9.177 per cent. per annum and the 5-year Mid-Swap Rate for such Reset Period. Subject as provided in the Conditions (see "*Limitations on Distributions*" below), such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 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 and for any reason. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items.

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

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

Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities then the right of the Holders to receive the relevant Distribution (or part thereof) will be extinguished and the Bank will have no obligation to

pay such Distribution (or part thereof), whether or not any future Distributions on the Preferred Securities are paid.

Status of the Preferred Securities:

The Preferred Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank and rank as set out in Condition 2.2 in accordance with Additional Provision 14.2° of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law.

For further information, see Condition 2.2.

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 any time, 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:

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.

Pre-emptive rights:

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

Voting Rights:

The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of

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

For further information, see Condition 10.

Withholding Tax and Additional Amounts:

Subject as provided in Condition 12.2, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made out of Distributable Items on the same basis as for payment of any Distribution in accordance with Condition 3) pay such additional amounts as would have been received in respect of such Distribution had no such withholding or deduction been required.

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

Form:

The Preferred Securities 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

OVERVIEW OF THE OFFERING

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, Switzerland and Canada. 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.

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, 2015 as filed with the SEC on 6th April, 2016, (which includes on page F-1 thereof the auditor's report and on pages F-2 to F-258 thereof, the Consolidated Financial Statements);
- (b) the audited stand-alone financial statements of the Bank as at and for the year ended 31st December, 2015; and
- (c) the audited stand-alone financial statements of the Bank as at and for the year ended 31st December, 2014.

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 Calle Azul, 4, 28050, 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).

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 2, 6 and 12).

The Preferred Securities (as defined below) are issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) by virtue of the resolutions passed by (i) the shareholders meeting 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 2nd February, 2016 and in accordance with the First Additional Provision of Law 10/2014, of 26th June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 junio, de ordenación, supervisión y solvencia de entidades de crédito*) (as amended from time to time, **Law 10/2014**) and the CRR (as defined below).

The Preferred Securities will be issued following the registration with the Commercial 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, S.A. (**Clearstream, Luxembourg** and, together with Euroclear, the **European Clearing Systems**) and certain other information applicable to the Preferred Securities. 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 relevant Screen Page as of 11.00 a.m. (Central European Time) on the Reset Determination Date; or
- (b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

5-year Mid-Swap Rate Quotations means the 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 a Representative Amount,

where the floating leg (calculated on an Actual/360 day count basis) is equivalent to EURIBOR 6-month;

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;

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

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

Agency Agreement means the agency agreement dated 14th April, 2016 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, CRD IV, the BRRD and those regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect of the Regulator, in each case to the extent then in effect in Spain (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group);

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

Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Madrid 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 any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital;

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

Capital Reduction Conversion has the meaning given in 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 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 14th April, 2016;

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

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

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

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

Conversion Event means 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 13 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, Law 10/2014, as amended from time to time, and any other regulation, circular or guidelines implementing or developing Law 10/2014;

CRR means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26th June, 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 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 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 the European Clearing Systems 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 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 Securities (where applicable) or Common Shares or any other instrument ranking junior to the Preferred Securities (where applicable) less (ii) any losses brought forward, profits which are non-distributable pursuant to the Spanish Corporations

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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;

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 14th January, 14th April, 14th July and 14th October 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

CONDITIONS OF THE PREFERRED SECURITIES

on which the Common Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Common Shares to be issued and delivered is determined;

- (b) any issue of Common Shares falling within 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

CONDITIONS OF THE PREFERRED SECURITIES

provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

Election Notice has the meaning given in paragraph 5.2;

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

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

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

EURIBOR 6-month means:

- (a) the rate for deposits in euro for a six month-period which appears on the relevant Screen Page as of 11:00 a.m. (Central European Time) on the Reset Determination Date for the relevant Reset Date; or
- (b) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the arithmetic mean of the rates at which deposits in euro are offered by four major banks in the Euro-zone interbank market, as selected by the Bank, at such time on such Reset Determination Date to prime banks in the Euro-zone interbank market for a six month-period commencing on such Reset Date in a Representative Amount, with the Agent Bank to request the principal Euro-zone office of each such major bank to provide a quotation of its rate;

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

Extraordinary Resolution has the meaning given in paragraph 10;

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser in good faith provided that (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) above during the period of 5 dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; and (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options,

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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 14th April, 2021;

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

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

Global Preferred Security means the global Preferred Security representing the Preferred Securities;

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 9.177 per cent. per annum;

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

Law 11/2015 means Law 11/2015 of 18th June on the Recovery and Resolution of Credit Institutions and Investment Firms (*Ley 11/2015, de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended from time to time;

Liquidation Distribution means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, 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;

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

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

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

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

Offering Circular means the offering circular dated 8th April, 2016 relating to the Preferred Securities;

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

- (a) that have been redeemed pursuant to Condition 6 or otherwise pursuant to the Conditions;
- (b) following a Conversion Event in respect of which all the remaining obligations of the Bank have been duly performed in relation thereto;
- (c) that have been purchased and cancelled under Condition 7;
- (d) that have become void under Condition 15; and

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- (e) that have been mutilated or defaced, or are alleged to have been lost, stolen or destroyed, and have been replaced pursuant to clause 5.3 of the Agency Agreement,

provided that for each of the following purposes, namely:

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

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

Parity Securities means any instrument issued or guaranteed by the Bank (including the guarantee thereof), which instrument or guarantee ranks *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 4 €1,000,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

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

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 13);

RD 1012/2015 means Royal Decree 1012/2015 of 6th November;

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;

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Reference Banks means 5 leading swap dealers in the Euro-zone 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 *Banco de España*, 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;

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

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

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

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

Reset Reference Bank Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 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, -0.002 per cent. per annum;

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”;

Screen Page means the display page on the relevant Reuters information service designated as (a) in the case of the 5-year Mid-Swap Rate, the “ISDAFIX2” page or (b) in the case of EURIBOR 6-month, the “EURIBOR01” page, or in each case such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate or EURIBOR 6-month, as applicable;

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 Conversion 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 from time to time;

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 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;

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

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

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

Tax Event means that as a result of any change in, or amendment to, the laws or regulations 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 12 below, or (c) the applicable tax treatment of the Preferred Securities would be materially affected;

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

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

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

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

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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 in 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, 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)

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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

2.1 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 the European Clearing Systems, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from the European Clearing Systems 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.

2.2 Unless previously converted into Common Shares pursuant to paragraph 5, the obligations of the Bank under the Preferred Securities constitute direct, unconditional, unsecured and subordinated obligations of the Bank and, in accordance with Additional Provision 14.2° of Law 11/2015 but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), for so long as the obligations of the Bank in respect of the Preferred Securities constitute an Additional Tier 1 Instrument of the Bank, rank:

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

2.2.2 junior to (A) any unsubordinated obligations of the Bank (including where those obligations subsequently become subordinated pursuant to Article 92.1° of the Insolvency Law) and (B) any claim for principal in respect of any other contractually subordinated obligations of the Bank, present and future, not constituting Additional Tier 1 Capital of the Bank for the purposes of Section 2.(a) of Additional Provision 14 of Law 11/2015 (other than, to the extent permitted by law, any Parity Securities, whether so ranking by law or their terms); and

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

To the extent the obligations of the Bank in respect of the Preferred Securities cease to constitute an Additional Tier 1 Instrument of the Bank but constitute a Tier 2 Instrument of the Bank, the payment obligations of the Bank under the Preferred Securities will rank, in accordance with Section 2.(b) of Additional Provision 14 of Law 11/2015 but not otherwise and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), as if the Preferred Securities were a Tier 2 Instrument. To the extent the obligations of the Bank in respect of the Preferred Securities cease to constitute either an Additional Tier 1 Instrument or a Tier 2 Instrument of the Bank, the payment obligations of the Bank under the Preferred Securities will rank, in accordance with Section 2.(a) of

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Additional Provision 14 of Law 11/2015 but not otherwise and subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise), as if the Preferred Securities were contractually subordinated obligations of the Bank not constituting Additional Tier 1 Capital or Tier 2 Capital of the Bank.

The obligations of the Bank under the Preferred Securities are also subject to the exercise of any power pursuant to Law 11/2015, RD 1012/2015 or other applicable laws relating to recovery and resolution of credit institutions and investment firms in Spain. See “Risk Factors - Factors which are material for the purpose of assessing the market risks associated with the Preferred Securities- The Preferred Securities may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 could materially affect the rights of the Holders of the Preferred Securities under, and the value of, any 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 8.875 per cent. per annum; and
- 3.1.2 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 the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period (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 3.5 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the 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 and for any reason.

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- 3.4 Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items.

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

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

- 3.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to paragraph 3.3 above or the limitations on payment set out in paragraphs 3.4 and 3.5 above then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

- 3.7 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 3.4 and 3.5 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.

If the Bank does not pay a Distribution or part thereof on the relevant Distribution Payment Date, such non-payment shall evidence the cancellation of such Distribution (or relevant part thereof) in accordance with this paragraph 3 or, as appropriate, the Bank's exercise of its discretion to cancel such Distribution (or relevant part thereof) in accordance with this paragraph 3, and accordingly, such Distribution shall not in any such case be due and payable.

- 3.8 Save as described in this paragraph 3, the Preferred Securities will confer no right to participate in the profits of the Bank.
- 3.9 Payments in respect of the Preferred Securities will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of paragraph 12 and (ii) any withholding or deduction required pursuant to an

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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 12) any law implementing an intergovernmental approach thereto.

- 3.10 All references in these Conditions to Distributions shall be deemed to include, as applicable, any additional amounts payable pursuant to paragraph 12 in respect thereof, including the automatic application of the same restrictions as to payment and considerations relating to cancellation as may apply to the corresponding Distribution.
- 3.11 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 13 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.
- 3.12 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 13 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.

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 13 below (together, a **Capital Reduction Notice**);
- (b) subject as provided below, irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (a **Capital Reduction Conversion**) to be delivered on the relevant Conversion Settlement Date and on such Conversion Settlement Date pay to the Holders, as applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, 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

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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 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 converted.

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:

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- 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.

- 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 or make any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

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.

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;

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Reference Amount means an amount per Common 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 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

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(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;
- 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.

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- 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
- 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 pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in 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:

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- 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.

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

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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 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 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

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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:

- (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);
- (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

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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 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 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 13 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.

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- 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 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.

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

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.

- 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 depository 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 (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.

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), there is a change in the regulatory classification of the Preferred Securities 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 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.

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 Preferred Securities 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

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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 13.

- 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 Stock Exchange; or
 - (ii) listed and/or admitted to trading on another Recognised Stock Exchange,and the Holders irrevocably authorise the Bank to make such amendments to these Conditions without the need for any further authorisation from the Holders;
- (d) issue, allot and deliver Common Shares upon Conversion subject to and as provided in 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. Meetings of Holders

10.1 Convening of Meetings, Quorum, Adjourned Meetings

- 10.1.1 The Bank may at any time and, if required in writing by Holders holding not less than ten per cent. in aggregate Liquidation Preference of the Preferred Securities for the time being outstanding, shall convene a meeting of the Holders and, if the Bank fails for a period of seven days to convene the meeting, the meeting may be convened by the relevant Holders. Whenever the Bank is about to convene any meeting it shall immediately give notice in writing to the Principal Paying Agent of the day, time and place of the meeting and of the nature of the business to be transacted at the meeting. Every meeting shall be held at a time and place approved by the Principal Paying Agent.
- 10.1.2 At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the Holders in the manner provided in Condition 13. The notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting and, in the case of an Extraordinary Resolution only, shall either (i) specify the terms of the Extraordinary Resolution to be proposed or (ii) inform Holders that the terms of the Extraordinary Resolution are available free of charge from the Principal Paying Agent, provided that, in the case of (ii), such resolution is so available in its final form with effect on and from the date on which the notice convening such meeting is given as aforesaid. The notice shall (i) include statements as to the manner in which Holders are entitled to attend and vote at the meeting or (ii) inform Holders that details of the voting arrangements are available free of charge from the Principal Paying Agent, provided that, in the case of (ii), the final form of such details are so available with effect on and from the date on which the notice convening such meeting is given as aforesaid. A copy of the notice shall be sent by post to the Bank (unless the meeting is convened by the Bank).
- 10.1.3 The person (who may but need not be a Holder) nominated in writing by the Bank shall be entitled to take the chair at each meeting but if no nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting the Holders present shall choose one of their number to be Chairman failing which the Bank may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.
- 10.1.4 At any meeting one or more Eligible Persons present and holding or representing in the aggregate not less than 5 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman in accordance with paragraph 10.1.3) shall be transacted at any meeting unless the required quorum is present at the commencement of business. The quorum at any meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Eligible Persons present and holding or representing in the aggregate not less than 50 per cent. in Liquidation Preference of the Preferred Securities for the time being outstanding

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provided that at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution):

- (i) a reduction or cancellation of the Liquidation Preference of the Preferred Securities; or
- (ii) without prejudice to the provisions of Condition 3 (including, without limitation, the right of the Bank to cancel the payment of any Distributions on the Preferred Securities), a reduction or cancellation of the amount payable or modification of the payment date in respect of any Distributions or variation of the method of calculating the Distribution Rate; or
- (iii) a modification of the currency in which payments under the Preferred Securities are to be made; or
- (iv) a modification of the majority required to pass an Extraordinary Resolution; or
- (v) the sanctioning of any scheme or proposal described in paragraph 10.2.8(vi); or
- (vi) alteration of this proviso or the proviso to paragraph 10.1.5 below,

the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than two-thirds in Liquidation Preference of the Preferred Securities for the time being outstanding.

10.1.5 If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall, if convened by Holders or if the Bank was required by Holders to convene such meeting pursuant to paragraph 10.1.1, be dissolved. In any other case it shall be adjourned to the same day in the next week (or if that day is a public holiday the next following business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall be adjourned for a period being not less than 14 clear days nor more than 42 clear days and at a place appointed by the Chairman and approved by the Principal Paying Agent). If within 15 minutes (or a longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either dissolve the meeting or adjourn it for a period, being not less than 14 clear days (but without any maximum number of clear days) and to a place as may be appointed by the Chairman (either at or after the adjourned meeting) and approved by the Principal Paying Agent, and the provisions of this sentence shall apply to all further adjourned meetings.

10.1.6 At any adjourned meeting one or more Eligible Persons present (whatever the Liquidation Preference of the Preferred Securities so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to

decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the required quorum been present provided that at any adjourned meeting the business of which includes any of the matters specified in the proviso to paragraph 10.1.4 the quorum shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one-third in Liquidation Preference of the Preferred Securities for the time being outstanding.

- 10.1.7 Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in paragraph 10.1.2 and the notice shall state the relevant quorum. Subject to this it shall not be necessary to give any notice of an adjourned meeting.

10.2 Conduct of Business at Meetings

- 10.2.1 Every question submitted to a meeting shall be decided in the first instance by a show of hands and in the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as an Eligible Person.
- 10.2.2 At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or the Bank or by any Eligible Person present (whatever the Liquidation Preference of the Preferred Securities held by him), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.
- 10.2.3 Subject to paragraph 10.2.5, if at any meeting a poll is demanded it shall be taken in the manner and, subject as provided below, either at once or after an adjournment as the Chairman may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.
- 10.2.4 The Chairman may, with the consent of (and shall if directed by) any meeting, adjourn the meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting except business which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.
- 10.2.5 Any poll demanded at any meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.
- 10.2.6 Any director or officer of the Bank and its lawyers and financial advisers may attend and speak at any meeting. Subject to this, but without prejudice to the proviso to the definition of **outstanding** in Condition 1, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Holders or join with others in requiring the convening of a meeting unless he is an Eligible Person.
- 10.2.7 Subject as provided in paragraph 10.2.6, at any meeting:

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- (i) on a show of hands every Eligible Person present shall have one vote; and
- (ii) on a poll every Eligible Person present shall have one vote in respect of each €1.00 or such other amount as the Principal Paying Agent shall in its absolute discretion specify in Liquidation Preference of Preferred Securities in respect of which he is an Eligible Person.

10.2.8 A meeting of the Holders shall in addition to the powers set out above have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to quorum contained in paragraphs 10.1.4 and 10.1.6), namely:

- (i) power to approve any compromise or arrangement proposed to be made between the Bank and the Holders;
- (ii) power to approve any abrogation, modification, compromise or arrangement in respect of the rights of the Holders against the Bank or against any of its property whether these rights arise under the Agency Agreement or the Preferred Securities or otherwise;
- (iii) power to agree to any modification of the provisions contained in the Agency Agreement, these Conditions or the Preferred Securities, which is proposed by the Bank;
- (iv) power to give any authority or approval which under the provisions of this Condition 10 or the Preferred Securities is required to be given by Extraordinary Resolution;
- (v) power to appoint any persons (whether Holders or not) as a committee or committees to represent the interests of the Holders and to confer upon any committee or committees any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;
- (vi) power to approve any scheme or proposal for the exchange or sale of the Preferred Securities for, or the conversion of the Preferred Securities into, or the cancellation of the Preferred Securities in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Bank or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash; and
- (vii) power to approve the substitution of any entity in place of the Bank (or any previous substitute) as the principal debtor in respect of the Preferred Securities.

10.2.9 Any resolution passed at a meeting of the Holders duly convened and held shall be binding upon all the Holders whether present or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence that the circumstances justify its passing. Notice of the result of voting on any resolution duly considered by the Holders shall be published in accordance with Condition 13 by the Bank within 14 days of the result being known provided that non-publication shall not invalidate the resolution.

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- 10.2.10 The expression **Extraordinary Resolution** when used in this Condition 10 means a resolution passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10 by a majority consisting of not less than 75 per cent. of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75 per cent. of the votes given on the poll.
- 10.2.11 Subject to paragraph 10.2.1, to be passed at a meeting of the Holders duly convened and held in accordance with the provisions of this Condition 10, a resolution (other than an Extraordinary Resolution) shall require a majority of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, a majority of the votes given on the poll.
- 10.2.12 Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Bank and any minutes signed by the Chairman of the meeting at which any resolution was passed or proceedings had shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had at the meeting to have been duly passed or had.
- 10.2.13 For the purposes of calculating a period of **clear days**, no account shall be taken of the day on which a period commences or the day on which a period ends.
- 10.2.14 The initial provisions governing the manner in which Holders (including accountholders in the European Clearing Systems) may attend and vote at a meeting of the holders of Preferred Securities are set out in the Agency Agreement. The Principal Paying Agent may without the consent of the Bank or the Holders prescribe any other regulations regarding such manner of attendance and voting as the Principal Paying Agent may in its sole discretion think fit. Notice of any such regulations may be given to Holders in accordance with Condition 13 and/or at the time of service of any notice convening a meeting.

11. Modification

The Principal Paying Agent and the Bank may agree, without the consent of the Holders, to:

- (a) any modification of the Preferred Securities or the Agency Agreement which is not prejudicial to the interests of the Holders; or
- (b) any modification of the Preferred Securities or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 13 as soon as practicable thereafter.

12. Taxation

- 12.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any

CONDITIONS OF THE PREFERRED SECURITIES

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**) in respect of payments of Distributions (but not any Liquidation Preference or other amount), the Bank shall (to the extent such payment can be made out of Distributable Items on the same basis as for payment of any Distribution in accordance with Condition 3) pay such additional amounts as will result in Holders receiving such amounts as they would have received in respect of such Distributions had no such withholding or deduction been required.

12.2 The Bank shall not be required to pay any additional amounts as referred to in paragraph 12.1 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 of 29th July made by the Spanish tax authorities; or
- (d) where the withholding or deduction referred to in paragraph 12.1 is imposed on a payment to an individual and is required to be made pursuant to 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 12.1 by presenting the Preferred Securities to a Paying Agent in another Member State of the European Union.

12.3 For the purposes of this paragraph 12, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly 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 13 below.

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

13. 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.

14. 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 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 in accordance with paragraph 13 above.

15. 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.

16. Governing Law and Jurisdiction

- 16.1 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.
- 16.2 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

CONDITIONS OF THE PREFERRED SECURITIES

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

USE OF PROCEEDS

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.

CAPITAL ADEQUACY

Capital Adequacy of the Group

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

| | As of 31st December | | |
|---|--|---------|---------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros except percentages)</i> | | |
| Common equity tier 1 ratio (%) ⁽¹⁾ | 12.1 | 11.9 | 11.1 |
| Tier 1 ratio (%) ⁽²⁾ | 12.1 | 11.9 | 12.7 |
| Total capital ratio (%) ⁽³⁾ | 15.0 | 15.1 | 12.9 |
| Total risk-weighted assets ⁽⁴⁾ | 401,285 | 350,803 | 323,774 |

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

| | As of 31st December, 2015 |
|--|-------------------------------|
| | <i>(in millions of euros)</i> |

| | |
|--|--------|
| Distance to Trigger Event ⁽⁵⁾ | 27,970 |
|--|--------|

Notes

(1) The common equity tier 1 ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(2) The tier 1 ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(3) The total capital ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(4) The total risk weighted assets are phased-in according to Basel III requirements in 2014 and 2015. For 2013, the risk-weighted assets are phased in according to Basel II requirements.

(5) The Distance to Trigger Event reflects as of 31st December, 2015 the amount of common equity tier 1 capital above the Trigger Event level applicable to the Preferred Securities (being a CET1 ratio of less than 5.125 per cent.).

Capital Adequacy of the Bank

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

| | As of 31st December | | |
|---|--|---------|---------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros except percentages)</i> | | |
| Common equity tier 1 ratio (%) ⁽¹⁾ | 17.8 | 17.2 | 12.7 |
| Tier 1 ratio (%) ⁽²⁾ | 20.1 | 18.9 | 13.9 |
| Total capital ratio (%) ⁽³⁾ | 21.6 | 20.6 | 14.9 |
| Total risk-weighted assets ⁽⁴⁾ | 199,939 | 198,121 | 246,550 |

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

| | As of 31st December, 2015 <i>(in millions of euros)</i> |
|--|---|
| Distance to Trigger Event ⁽⁵⁾ | 25,284 |

Notes

(1) The common equity tier 1 ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(2) The tier 1 ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(3) The total capital ratio was calculated in accordance with Basel III requirements in 2014 and 2015, applying a 40 per cent. phase in for 2015. For 2013, the calculation was based on Basel II requirements.

(4) The total risk weighted assets are phased-in according to Basel III requirements in 2014 and 2015. For 2013, the risk-weighted assets are phased in according to Basel II requirements.

(5) The Distance to Trigger Event reflects as of 31st December, 2015 the amount of common equity tier 1 capital above the Trigger Event level applicable to the Preferred Securities (being a CET1 ratio of less than 5.125 per cent.).

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

HISTORY AND DEVELOPMENT OF BBVA

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 Calle Azul, 4, 28050, Madrid, Spain, telephone number +34-91-374-6201. BBVA's agent in the U.S. for U.S. federal securities law purposes is Banco Bilbao Vizcaya Argentaria, S.A. New York Branch (1345 Avenue of the Americas, 44th Floor, 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. The main capital expenditures in 2015, 2014 and 2013 were as follows:

2015

Acquisition of an additional 14.89 per cent. of Garanti

On 19th November, 2014, the Group signed a new agreement with the Doğuş Group to, among other terms, acquire 62,538,000,000 additional shares of Garanti (equivalent to 14.89 per cent. of the capital of this entity) for a maximum total consideration of TL 8.90 per batch (Garanti traded in batches of 100 shares each).

The same agreement stated that if the payment of dividends for the year 2014 was executed by the Doğuş Group before the closing of the acquisition, that amount would be deducted from the amount payable by BBVA. On 27th April, 2015, the Doğuş Group received the amount of the dividend paid to shareholders of Garanti, which amounted to TL 0.135 per batch.

On 27th July, 2015, after obtaining all the required regulatory approvals, the Group completed the acquisition of these shares. The Group's current interest in Garanti is 39.90 per cent.

The total price effectively paid by BBVA amounted to TL 8.765 per batch (amounting to approximately TL 5,481 million and €1,857 million applying a 2.9571 TL/EUR exchange rate).

The agreements with the Doğuş Group include an agreement for the management of Garanti and the appointment by the Group of the majority of the members of its board of directors (seven out of ten). The 39.90 per cent. stake in Garanti is consolidated in the Group, because of these management agreements. In accordance with IFRS-IASB, and as a consequence of the agreements reached, the Group shall, at the date of effective control, measure at fair value its previously acquired stake of 25.01 per cent. in Garanti (classified as a joint venture accounted for using the equity method) and shall consolidate Garanti in the consolidated financial statements of the Group beginning on the above-mentioned effective control date.

Measuring the above-mentioned stake in Garanti at fair value resulted in a negative impact in "Gains (Losses) on derecognised assets not classified as non-current assets held for sale" in the consolidated income statement of the Group for the year ended 31st December, 2015, which resulted, in turn, in a

net negative impact in the “Profit attributable to parent company” of the Group in 2015 amounting to €1,840 million. Such accounting impact did not translate into any additional cash outflow from BBVA. Most of this impact is generated by the exchange rate differences due to the depreciation of the TL against euro since the initial acquisition by BBVA of the 25.01 per cent. stake in Garanti up to the date of effective control. As of 31st December, 2015, these exchange rate differences were already recognised as Other Comprehensive Income deducting the stock shareholder’s equity of the Group.

As of 31st December, 2015, Garanti has total assets of approximately €90 billion, of which approximately €55 billion were loans to customers, and a volume of customer deposits of approximately €75 billion. The contribution of Garanti to the 2015 consolidated income statement was €371 million regardless of the above mentioned measurement of the stake in Garanti at fair value. See Note 6 to the Consolidated Financial Statements for additional information.

If the business combination with Garanti had become effective on 1st January, 2015, Garanti would have contributed €539 million to the consolidated income statement for the year ended 31st December, 2015, regardless of the above mentioned measurement of the stake in Garanti at fair value.

According to the acquisition method, which compares the fair values assigned to the assets acquired and the liabilities assumed by the Bank from Garanti with the overall purchase price paid by the Bank, the Group provisionally estimated that the acquisition of Garanti generated goodwill of €622 million as of 31st December, 2015, which was recognised under the heading “Intangible assets – Goodwill” in the consolidated balance sheet as of 31st December, 2015. According to IFRS 3, there is a period, not to exceed one year from the acquisition date, to retrospectively adjust the provisional amounts recognised at the acquisition date for new facts and circumstances not in existence on such date that would have affected the calculation of the initial acquisition price. See Note 18.1 to the Consolidated Financial Statements for additional information.

Acquisition of Catalunya Banc

On 24th April, 2015, once the necessary authorisations had been obtained and all of the agreed conditions precedent had been fulfilled, BBVA announced the acquisition of 1,947,166,809 shares of Catalunya Banc, S.A. (**Catalunya Banc**) (approximately 98.4 per cent. of its share capital) for a price of approximately €1,165 million.

Previously, on 21st July, 2014, the Management Commission of the FROB had accepted BBVA’s bid in the competitive auction for the acquisition of Catalunya Banc.

As of 31st December, 2015, Catalunya Banc had assets of approximately €40 billion, of which approximately €19 billion corresponded to loans and advances to customers. Customer deposits amounted to approximately €36 billion as of such date.

According to the purchase method, the comparison between the fair values assigned to the assets acquired and the liabilities assumed from Catalunya Banc as of 31st December, 2015, and the cash payment made to the FROB in consideration of the transaction generated a difference of €26 million, which was recognised under the heading “Negative Goodwill in business combinations” in the consolidated income statement for the year ended 31st December, 2015. According to IFRS 3, there is a period, not to exceed one year from the acquisition date, to retrospectively adjust the provisional amounts recognised at the acquisition date for new facts and circumstances not in existence on such date that would have affected the calculation of the initial acquisition price. See Note 18.1 to the Consolidated Financial Statements for additional information.

2014

In 2014 there were no additional significant capital expenditures.

2013

Acquisition of Unnim Vida.

On 1st February, 2013, Unnim Banc, S.A. (which was subsequently merged into BBVA), reached an agreement with Aegon Spain Holding B.V. to acquire 50 per cent. of Unnim Vida, Inc. Insurance and Reinsurance (**Unnim Vida**) for a price of €352 million. Following this acquisition, the Group owned 100 per cent. of Unnim Vida.

CAPITAL DIVESTITURES

BBVA's principal divestitures are financial divestitures in its subsidiaries and affiliates. The main capital divestitures in 2015, 2014 and 2013 were as follows:

2015

Sale of the participation in Citic International Financial Holdings Limited (CIFH)

On 23rd December, 2014, the Group signed an agreement to sell its 29.68 per cent. participation in Citic International Financial Holdings Limited (**CIFH**), to China CITIC Bank Corporation Limited (**CNCB**). CIFH is a non-listed subsidiary of CNCB domiciled in Hong Kong. On 27th August, 2015, BBVA completed the sale of this participation. The selling price of HK\$8,162 million was recognised under "gains (losses) in non-current assets held for sale not classified as discontinued operations".

Partial sale of China CITIC Bank Corporation Limited (CNCB)

On 23rd January, 2015, the Group signed an agreement to sell a 4.9 per cent. stake in CNCB to UBS AG, London Branch (**UBS**), which in turn entered into transactions pursuant to which such CNCB shares were to be transferred to a third party, with the ultimate economic benefit of ownership of such CNCB shares being transferred to Xinhua Zhongbao Co., Ltd (**Xinhua**) (collectively, the **Relevant Transactions**). On 12th March, 2015, after having obtained the necessary approvals, BBVA completed the sale. The selling price to UBS was HK\$5.73 per share, amounting to a total of HK\$13,136 million, equivalent to approximately €1,555 million (with an exchange rate of €/HK\$=8.45 as of the date of the closing).

In addition to the sale of this 4.9 per cent. stake, the Group made various sales of CNCB shares in the market during 2015. In total, a participation of 6.34 per cent. in CNCB was sold during 2015. The impact of these sales on the Consolidated Financial Statements of the Group was a gain, net of taxes, of approximately €705 million in 2015. This gain, gross of taxes, was recognised under "Gains (losses) in non-current assets available for sale not classified as discontinued operations" in the consolidated income statement for 2015. See Note 49 to the Consolidated Financial Statements for additional information.

As of 31st December, 2015, BBVA holds a 3.26 per cent. interest in CNCB (valued at €910 million). This participation is recognised under the heading "Available for sale financial assets" in BBVA's balance sheet as of 31st December, 2015.

2014

In 2014 there were no significant capital divestitures.

2013

Sale of BBVA Panama

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

On 20th July, 2013, BBVA announced that it had reached an agreement with the entity 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, U.S.\$505 million as sale price and U.S.\$140 million as distribution of dividends by BBVA Panamá from 1st June, 2013.

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) on non-current assets held for sale not classified as discontinued operations" in the consolidated income statement in 2013. See Note 49 to the Consolidated Financial Statements for additional information.

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 (**AFP**) in Chile, Colombia and Peru, and the Retirement Fund Administrator (Afore) in Mexico.

On 2nd October, 2013, with the sale of Administradora de Fondos de Pensiones AFP Provida S.A. (**AFP Provida**), BBVA finalized the process. Below is a description of each of the operations 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 AFP Provida.

On 2nd October, 2013, BBVA completed the 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. See Note 49 to the Consolidated Financial Statements for additional information.

Sale of BBVA AFP Horizonte S.A. (Peru)

On 23rd April, 2013, BBVA sold its wholly owned Peruvian subsidiary "AFP Horizonte SA" to "AFP Integra SA" and "Profuturo AFP, SA" who have each acquired 50 per cent. of AFP Horizonte SA.

The total consideration paid for such shares was approximately U.S.\$544 million. This consideration was composed of a purchase price of approximately U.S.\$516 million and a dividend distributed 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. See Note 49 to the Consolidated Financial Statements for additional information.

Sale of BBVA AFP Horizonte S.A. (Colombia)

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 moment of the sale, and was recognised under the heading “Profit from discontinued operations (Net)” in the consolidated income statement in 2013. See Note 49 to the Consolidated Financial Statements for additional information.

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 had been obtained from the competent authorities, the sale was closed on 9th January, 2013, at which point the Group no longer had control over the subsidiary sold.

The total sale price was U.S.\$1,735 million (approximately €1,327 million). The gain on disposal, attributable to parent company net of taxes, was approximately €771 million, and was recognised under the heading “Profit from discontinued operations (Net)” in the consolidated income statement in 2013. See Note 49 to the Consolidated Financial Statements for additional information.

Agreement with CITIC Group

As of 21st October, 2013, BBVA reached an agreement with the Citic group that included, among other matters, the sale by BBVA of a 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.

In accordance with IFRS 11, this sale led to a change in the accounting criteria applicable to BBVA’s participation in CNCB, to a financial participation recognised under the heading “Available-for-sale financial assets”. See Notes 12 and 16 to the Consolidated Financial Statements for additional information.

This 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. See Note 48 to the Consolidated Financial Statements for additional information.

BUSINESS OVERVIEW

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

Operating Segments

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

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

- Banking Activity in Spain
- Real Estate Activity in Spain
- Turkey
- Rest of Eurasia
- Mexico
- South America
- United States

In addition to the operating segments referred to above, the Group has a Corporate Center which includes those items that have not been allocated to an operating segment. It includes the Group's general management functions, including: costs from central units that have a strictly corporate function; management of structural exchange rate positions carried out by the Financial Planning unit; specific issuances of capital instruments designed to ensure adequate management of the Group's overall capital position; proprietary portfolios such as holdings in some of Spain's leading companies and their corresponding results; certain tax assets and liabilities; provisions related to commitments with pensioners; and goodwill and other intangibles. It also comprises the following items (i) with respect to 2015, the capital gains from the sales of a 6.34 per cent. stake in CNCB and a 29.68 per cent. stake in CIFH, the impact associated with the valuation at fair value of the 25.01 per cent. initial stake held by BBVA in Garanti, and the negative goodwill from the acquisition of Catalunya Banc and (ii) with respect to 2013, the earnings from the sale of the pension businesses in Mexico, Colombia, Peru and Chile and also the results of these businesses until their sale; the capital gain from the sale of BBVA Panama; and the impact associated with the reduction of the stake in CNCB (which led to the repricing at market value of BBVA's stake in CNCB, as well as the equity-adjusted results from CNCB, excluding dividends).

The information presented below as of and for the years ended 31st December 2014 and 2013 was recast in 2014 to reflect BBVA's current operating segments. In addition, the information presented below as of and for the year ended 31st December 2013 reflects certain minor reclassifications made in 2014 among BBVA's operating segments, including as a result of the reclassification of BBVA's business in Panama (which was sold in 2013) to the Corporate Center.

The breakdown of the Group's total assets by operating segments as of 31st December, 2015, 2014 and 2013 is as follows:

| Total Assets by Operating Segment | As of 31st December | | |
|---|-------------------------------|----------------|---------------------|
| | 2015 | 2014 | 2013 ⁽¹⁾ |
| | <i>(in millions of euros)</i> | | |
| Banking Activity in Spain..... | 339,643 | 318,446 | 314,956 |
| Real Estate Activity in Spain | 17,310 | 17,365 | 19,975 |
| Turkey ⁽²⁾ | 89,003 | 22,342 | 19,453 |
| Rest of Eurasia | 23,626 | 22,325 | 21,771 |
| Mexico | 99,472 | 93,731 | 81,801 |
| South America | 70,661 | 84,364 | 77,874 |
| United States | 86,454 | 69,261 | 53,046 |
| Subtotal Assets by Operating Segments..... | 726,170 | 627,834 | 588,876 |
| Corporate Center and other adjustments ⁽³⁾ | 23,908 | 4,108 | (6,179) |
| Total Assets BBVA Group | 750,078 | 631,942 | 582,697 |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

- (1) Reflects certain restatements relating to, among others, the reclassification of the Group's business in Panama (sold in 2013) to the Corporate Center.
- (2) The information is presented under management criteria, pursuant to which Garanti's assets and liabilities have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti that it held until July 2015. On 27th July, 2015 the agreement referred to in "– Capital Expenditures – 2015 and 2014 – Acquisition of an additional 14.89 per cent. of Garanti" came into effect and the Garanti Group was fully consolidated in BBVA's consolidated financial statements.
- (3) Other adjustments include adjustments made to account for the fact that, in the consolidated financial statements, Garanti was accounted for using the equity method rather than using the management criteria referred to above.

The following table sets forth information relating to the profit by each of BBVA's operating segments and Corporate Center for the years ended 31st December, 2015, 2014 and 2013.

| | Profit/(Loss) Attributable to Parent Company | | | per cent. of Profit/(Loss) Attributable to Parent Company | | |
|--|---|---------------------|---------------------|---|---------------|---------------------|
| | For the Year Ended 31st December | | | | | |
| | 2015 | 2014 ⁽³⁾ | 2013 ⁽¹⁾ | 2015 | 2014 | 2013 ⁽¹⁾ |
| | <i>(in millions of euros)</i> | | | <i>(in percentage)</i> | | |
| Banking Activity in Spain..... | 1,046 | 858 | 428 | 23.1 | 22.2 | 14.2 |
| Real Estate Activity in Spain | (492) | (901) | (1,268) | (10.9) | (23.3) | (41.9) |
| Turkey ⁽²⁾ | 371 | 310 | 264 | 8.2 | 8.0 | 8.7 |
| Rest of Eurasia | 76 | 255 | 185 | 1.7 | 6.6 | 6.1 |
| Mexico | 2,090 | 1,915 | 1,802 | 46.1 | 49.5 | 59.6 |
| South America | 905 | 1,001 | 1,224 | 20.0 | 25.9 | 40.5 |
| United States | 537 | 428 | 390 | 11.9 | 11.1 | 12.9 |
| Subtotal Operating Segments | 4,533 | 3,867 | 3,025 | 100.00 | 100.00 | 100.00 |
| Corporate Center | (1,891) | (1,249) | (941) | | | |
| Profit | 2,642 | 2,618 | 2,084 | | | |

- (1) Reflects certain restatements relating to, among others, the reclassification of the Group's business in Panama (sold in 2013) to the Corporate Center.
- (2) The information is presented under management criteria, pursuant to which Garanti's assets and liabilities have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti that it held until July 2015. On 27th July, 2015 the agreement referred to in "– Capital Expenditures – 2015 and 2014 – Acquisition of an additional 14.89 per cent. of Garanti" came into effect and the Garanti Group was fully consolidated in BBVA's consolidated financial statements.
- (3) In the fourth quarter of 2015, several operating expenses related to technology have been reclassified from the Corporate Center to the Banking Activity in Spain reporting business area. This reclassification is a consequence of the reassignment of technology related management competences, resources and responsibilities from the Corporate Center to the Banking Activity in Spain reporting business area during 2015.

The following table sets forth information relating to the income of each operating segment for the years ended 31st December, 2015, 2014 and 2013 and reconciles the income statement of the various operating segments to the consolidated income statement of the Group:

| | Operating Segments | | | | | | | | | |
|---|---------------------------|-------------------------------|-----------------------|-----------------|--------------|---------------|---------------|------------------|--------------|--------------------------------|
| | Banking Activity in Spain | Real Estate Activity in Spain | Turkey ⁽¹⁾ | Rest of Eurasia | Mexico | South America | United States | Corporate Center | Total | Adjustments ^{(2) (4)} |
| | (in millions of euros) | | | | | | | | | |
| 2015 | | | | | | | | | | |
| Net interest income..... | 4,000 | 66 | 2,194 | 183 | 5,393 | 3,202 | 1,811 | (424) | 16,426 | (404) |
| Gross income..... | 6,804 | (16) | 2,434 | 473 | 7,069 | 4,477 | 2,652 | (212) | 23,680 | (318) |
| Net margin before provisions ⁽³⁾ | 3,302 | (150) | 1,273 | 121 | 4,456 | 2,498 | 846 | (982) | 11,363 | (109) |
| Operating profit/(loss) before tax | 1,492 | (713) | 853 | 111 | 2,769 | 1,814 | 705 | (1,152) | 5,879 | (1,276) |
| Profit | 1,046 | (492) | 371 | 76 | 2,090 | 905 | 537 | (1,891) | 2,642 | - |
| 2014 | | | | | | | | | | |
| Net interest income..... | 3,830 | (38) | 735 | 189 | 4,910 | 4,699 | 1,443 | (651) | 15,116 | (734) |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

| Operating Segments | | | | | | | | | | | |
|---|---------------------------------|--|---------------|--------------------|--------------|------------------|------------------|---------------------|--------------|-------------------------|---------------|
| | Banking Activity in Spain | Real Estate Activity in Spain | Turkey (1) | Rest of Eurasia | Mexico | South America | United States | Corporate Center | Total | Adjustme nts (2) (4) | BBVA Group |
| <i>(in millions of euros)</i> | | | | | | | | | | | |
| Gross income..... | 6,621 | (220) | 944 | 736 | 6,522 | 5,191 | 2,137 | (575) | 21,357 | (632) | 20,725 |
| Net margin before provisions(3) | 3,534 | (373) | 550 | 393 | 4,115 | 2,875 | 640 | (1,328) | 10,406 | (240) | 10,166 |
| Operating profit/(loss) before tax | 1,220 | (1,287) | 392 | 320 | 2,519 | 1,951 | 561 | (1,615) | 4,063 | (82) | 3,980 |
| Profit | 858 | (901) | 310 | 255 | 1,915 | 1,001 | 428 | (1,249) | 2,618 | - | 2,618 |
| 2013 | | | | | | | | | | | |
| Net interest income..... | 3,838 | 4 | 713 | 195 | 4,478 | 4,660 | 1,402 | (678) | 14,613 | (713) | 13,900 |
| Gross income..... | 6,103 | (111) | 929 | 788 | 6,194 | 5,583 | 2,047 | (343) | 21,191 | (439) | 20,752 |
| Net margin before provisions(3) | 2,860 | (253) | 522 | 459 | 3,865 | 3,208 | 618 | (1,290) | 9,990 | (34) | 9,956 |
| Operating profit/(loss) before tax | 1 | (1,868) | 339 | 248 | 2,358 | 2,354 | 534 | (1,421) | 2,544 | (1,590) | 954 |
| Profit | 428 | (1,268) | 264 | 185 | 1,802 | 1,224 | 390 | (941) | 2,084 | - | 2,084 |

- (1) The information is presented under management criteria, pursuant to which Garanti's assets and liabilities have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti that it held until July 2015. On 27th July, 2015 the agreement referred to in "– Capital Expenditures – 2015 and 2014 – Acquisition of an additional 14.89 per cent. of Garanti" came into effect and the Garanti Group was fully consolidated in BBVA's consolidated financial statements.
- (2) Other adjustments include adjustments made to account for the fact that, in BBVA's consolidated financial statements, Garanti was accounted for using the equity method rather than using the management criteria referred to above.
- (3) "Net margin before provisions" is calculated as "Gross income" less "Administration costs" and "Depreciation and amortisation".
- (4) In the fourth quarter of 2015, several operating expenses related to technology have been reclassified from the Corporate Center to the Banking Activity in Spain reporting business area. This reclassification is a consequence of the reassignment of technology related management competences, resources and responsibilities from the Corporate Center to the Banking Activity in Spain reporting business area during 2015.

Banking Activity in Spain

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

- **Spanish Retail Network:** including individual customers, private banking, small companies and businesses in the domestic market;
- **Corporate and Business Banking (CBB):** which manages small and medium-sized enterprises (SMEs), companies and corporations, public institutions and developer segments;
- **Corporate and Investment Banking (C&IB):** responsible for business with large corporations and multinational groups and the trading floor and distribution business in Spain; and
- **Other units:** which include the insurance business unit in Spain (BBVA Seguros), and the Asset Management unit, which manages Spanish mutual funds and pension funds.

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In addition, it includes certain loans and advances 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, 2015, 2014 and 2013:

| | As of 31st December | | |
|--|------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 |
| | (in millions of euros) | | |
| Total Assets | 339,643 | 318,446 | 314,956 |
| Loans and advances to customers | 192,068 | 174,201 | 178,288 |
| <i>Of which:</i> | | | |
| Residential mortgages | 85,002 | 74,508 | 77,575 |
| Consumer finance..... | 6,145 | 5,270 | 6,703 |
| <i>Loans</i> | 4,499 | 3,946 | 4,962 |
| <i>Credit cards</i> | 1,646 | 1,324 | 1,741 |
| Loans to enterprises..... | 43,763 | 37,224 | 37,181 |
| Loans to public sector..... | 20,975 | 22,833 | 21,694 |
| Customer deposits | 185,314 | 154,261 | 157,124 |
| <i>Of which:</i> | | | |
| Current and savings accounts | 81,061 | 61,434 | 56,194 |
| Time deposits | 78,403 | 70,521 | 80,234 |
| Other customer funds | 14,906 | 9,207 | 8,198 |
| Assets under management | 56,690 | 50,702 | 42,651 |
| Mutual funds..... | 33,670 | 29,649 | 23,018 |
| Pension funds | 22,897 | 21,879 | 20,427 |
| Other placements..... | 123 | 174 | 206 |

Loans and advances to customers in this operating segment as of 31st December, 2015 amounted to €192,068 million, a 10.3 per cent. increase from the €174,201 million recorded as of 31st December, 2014, mainly as a result of the acquisition of Catalunya Banc on 24th April, 2015.

Customer deposits in this operating segment as of 31st December, 2015 amounted to €185,314 million, a 20.1 per cent. increase from the €154,261 million recorded as of 31st December, 2014, mainly due to the acquisition of Catalunya Banc and the positive performance of current and saving accounts.

Mutual funds in this operating segment as of 31st December, 2015 amounted to €33,670 million, a 13.6 per cent. increase from the €29,649 million recorded as of 31st December, 2014 mainly as a result of the transfer of customer deposits to mutual funds. Pension funds in this operating segment as of 31st December, 2015 amounted to €22,897 million, a 4.7 per cent. increase from the €21,879 million recorded as of 31st December, 2014.

This operating segment's non-performing asset ratio increased to 6.6 per cent. as of 31st December, 2015, from 6.0 per cent. as of 31st December, 2014, mainly due to the acquisition of Catalunya Banc. This operating segment's non-performing assets coverage ratio increased to 59 per cent. as of 31st December, 2015, from 45 per cent. as of 31st December, 2014.

Real Estate Activity in Spain

This operating segment was set up with the aim of providing specialised and structured management of the real estate assets accumulated by the Group as a result of the economic crisis in Spain. It includes primarily lending to real estate developers and foreclosed real estate assets.

The exposure, including loans and advances to customers and foreclosed assets, to the real estate sector in Spain is declining. As of 31st December, 2015, the balance stood at €12,394 million, 1.2 per cent. lower than as of 31st December, 2014. Non-performing assets of this segment have continued to decline and as of 31st December, 2015 were 8.5 per cent. lower than as of 31st December, 2014. The coverage of non-performing and potential problem loans of this segment increased to 63.4 per cent. as of 31st December, 2015, compared with 62.8 per cent. of the total amount of real-estate assets in this operating segment.

The number of real estate assets sold amounted to 21,082 units in 2015, 9 per cent. lower than in 2014.

Turkey

This operating segment reflects BBVA's stake in the Turkish bank Garanti. Following management criteria, assets and liabilities have been proportionally integrated based on the 25.01 per cent. interest in Garanti until July 2015, when the acquisition discussed above was completed and BBVA began to fully consolidate Garanti and its subsidiaries (the **Garanti Group**) (100 per cent.).

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2015, 2014 and 2013:

| | As of 31st December | | |
|--|-------------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros)</i> | | |
| Total Assets | 89,003 | 22,342 | 19,453 |
| Loans and advances to customers | 57,768 | 13,635 | 11,554 |
| <i>Of which:</i> | | | |
| Residential mortgages | 6,215 | 1,413 | 1,204 |
| Consumer finance | 14,156 | 3,653 | 3,204 |
| Loans | 9,010 | 2,402 | 1,976 |
| Credit cards..... | 5,146 | 1,252 | 1,228 |
| Loans to enterprises..... | 31,918 | 7,442 | 6,380 |
| Loans to public sector..... | - | - | - |
| Customer deposits | 47,148 | 11,626 | 9,704 |
| <i>Of which:</i> | | | |
| Current and savings accounts | 9,697 | 2,151 | 1,726 |
| Time deposits | 33,695 | 7,860 | 6,889 |
| Other customer funds | - | - | - |
| Assets under management | 3,620 | 882 | 730 |
| Mutual funds..... | 1,243 | 344 | 373 |
| Pension funds | 2,378 | 538 | 357 |

During 2015, the Turkish lira depreciated against the euro in average terms (from 2.9064 TL/EUR in 2014 to 3.0246 TL/EUR in 2015). There was also a year-on-year depreciation of the Turkish lira as of 31st December, 2015 (from 2.8320 liras/€ as of 31st December, 2014 to 3.1765 liras/€ as of 31st December, 2015). The effect of changes in exchange rates was negative for the year-on-year comparison of the Group's income statement and was negative for the year-on-year comparison of the Group's balance sheet (including the information shown above).

Following the consolidation of the Garanti Group in BBVA's consolidated financial statements, as of 31st December, 2015 loans and advances to customers in this operating segment amounted to €57,768 million (as compared to €13,635 million as of 31st December, 2014), customer deposits amounted to €47,148 million (as compared to €11,626 million as of 31st December, 2014), mutual funds amounted to €1,243 million (as compared to €344 million as of 31st December, 2014) and pension funds amounted to €2,378 million (as compared to €538 million as of 31st December, 2014).

This operating segment's non-performing asset ratio was 2.8 per cent. as of 31st December, 2015 and 2014. This operating segment non-performing assets coverage ratio increased to 129.3 per cent. as of 31st December, 2015 from 115.1 per cent. as of 31st December, 2014.

Rest of Eurasia

This operating segment covers the retail and wholesale banking businesses of the Group in Europe (primarily Portugal) and Asia (excluding Spain and Turkey).

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2015, 2014 and 2013:

| | As of 31st December | | |
|--|------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| | (in millions of euros) | | |
| Total Assets | 23,626 | 22,325 | 21,771 |
| Loans and advances to customers | 16,143 | 15,795 | 16,843 |
| <i>Of which:</i> | | | |
| Residential mortgages | 2,614 | 2,779 | 2,952 |
| Consumer finance | 322 | 490 | 779 |
| Loans | 305 | 475 | 767 |
| Credit cards | 17 | 15 | 12 |
| Loans to enterprises | 12,619 | 11,119 | 11,598 |
| Loans to public sector | 216 | 234 | 251 |
| Customer deposits | 15,210 | 11,045 | 7,931 |
| <i>Of which:</i> | | | |
| Current and savings accounts | 5,188 | 3,224 | 2,659 |
| Time deposits | 9,319 | 7,341 | 4,704 |
| Other customer funds | 609 | 376 | 463 |
| Assets under management | 331 | 466 | 408 |
| Mutual funds | - | 152 | 132 |
| Pension funds | 331 | 314 | 276 |

Loans and advances to customers in this operating segment as of 31st December, 2015 amounted to €16,143 million, a 2.2 per cent. increase from the €15,795 million recorded as of 31st December, 2014, mainly as a result of the stronger activity in Asia.

Customer deposits in this operating segment as of 31st December, 2015 amounted to €15,210 million, a 37.7 per cent. increase from the €11,045 million recorded as of 31st December, 2014, mainly as a result of increased deposits in Europe.

Mutual funds in this operating segment as of 31st December, 2015 were nil compared to the €152 million recorded as of 31st December, 2014, due mainly to the decrease of these funds in Portugal (mutual funds have been progressively transferred from Portugal to the Asset Management unit within the Banking Activity in Spain segment).

Pension funds in this operating segment as of 31st December, 2015 amounted to €331 million, a 5.4 per cent. increase from the €314 million recorded as of 31st December, 2014, mainly as a result of increases in Portugal.

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This operating segment's non-performing assets ratio decreased to 2.6 per cent. as of 31st December, 2015 from 3.7 per cent. as of 31st December, 2014. This operating segment's non-performing assets coverage ratio increased to 96 per cent. as of 31st December, 2015 from 80 per cent. as of 31st December, 2014.

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, 2015, 2014 and 2013:

| | As of 31st December | | |
|--|-------------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros)</i> | | |
| Total Assets | 99,472 | 93,731 | 81,801 |
| Loans and advances to customers | 49,048 | 46,798 | 40,668 |
| <i>Of which:</i> | | | |
| Residential mortgages..... | 9,099 | 9,272 | 8,985 |
| Consumer finance..... | 11,588 | 10,902 | 10,096 |
| <i>Loans</i> | 6,550 | 5,686 | 4,748 |
| <i>Credit cards</i> | 5,038 | 5,216 | 5,348 |
| Loans to enterprises..... | 18,162 | 16,706 | 13,881 |
| Loans to public sector..... | 4,197 | 4,295 | 3,594 |
| Customer deposits | 49,539 | 45,937 | 42,452 |
| <i>Of which:</i> | | | |
| Current and savings accounts..... | 32,168 | 28,014 | 24,672 |
| Time deposits..... | 7,049 | 6,426 | 5,611 |
| Other customer funds..... | 5,724 | 6,537 | 6,164 |
| Assets under management | 21,557 | 22,094 | 19,673 |
| Mutual funds..... | 17,894 | 18,691 | 16,896 |
| Other placements..... | 3,663 | 3,403 | 2,777 |

The Mexican peso slightly depreciated against the euro as of 31st December, 2015 compared with 31st December, 2014, negatively affecting the business activity of the Mexico operating segment as of 31st December, 2015 expressed in euro. See “Item 5. Operating and Financial Review and Prospects—Factors Affecting the Comparability of our Results of Operations and Financial Condition” of the Form 20-F.

Loans and advances to customers in this operating segment as of 31st December, 2015 amounted to €49,048 million, a 4.8 per cent. increase from the €46,798 million recorded as of 31st December, 2014, mainly due to a significant increase in the retail portfolio, especially boosted by lending to SMEs and, to a lesser extent, by consumer finance and credit cards.

Customer deposits in this operating segment as of 31st December, 2015 amounted to €49,539 million, a 7.8 per cent. increase from the €45,937 million recorded as of 31st December, 2014, mainly as a result of the positive performance of both current and saving accounts and time deposits.

Mutual funds in this operating segment as of 31st December, 2015 amounted to €17,894 million, a 4.3 per cent. decrease from the €18,691 million recorded as of 31st December, 2014.

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This operating segment's non-performing assets ratio decreased to 2.6 per cent. as of 31st December, 2015, from 2.9 per cent. as of 31st December, 2014. This operating segment non-performing assets coverage ratio increased to 120 per cent. as of 31st December, 2015, from 114 per cent. as of 31st December, 2014.

South America

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

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

- Retail and Corporate Banking: includes banks in Argentina, 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, 2015, 2014 and 2013:

| | As of 31st December | | |
|--|-------------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros)</i> | | |
| Total Assets | 70,661 | 84,364 | 77,874 |
| Loans and advances to customers | 44,970 | 52,920 | 48,466 |
| <i>Of which:</i> | | | |
| Residential mortgages | 9,810 | 9,622 | 8,534 |
| Consumer finance | 9,278 | 13,575 | 13,112 |
| Loans | 6,774 | 9,336 | 9,441 |
| Credit cards | 2,504 | 4,239 | 3,670 |
| Loans to enterprises | 19,896 | 20,846 | 18,606 |
| Loans to public sector | 630 | 650 | 601 |
| Customer deposits | 41,998 | 56,370 | 55,167 |
| <i>Of which:</i> | | | |
| Current and savings accounts | 21,011 | 35,268 | 35,091 |
| Time deposits | 16,990 | 16,340 | 15,018 |
| Other customer funds | 4,031 | 5,012 | 4,744 |
| Assets under management | 9,729 | 8,480 | 6,552 |
| Mutual funds | 3,793 | 3,848 | 2,952 |
| Pension funds | 5,936 | 4,632 | 3,600 |

The period-end exchange rate against the euro of the currencies of the countries in which BBVA operates in South America decreased, on average, in 2015, compared with December 2014, negatively affecting business activity in South America. The depreciation of the Venezuelan bolivar as of 31st December, 2015 was particularly significant. See "Item 5. Operating and Financial Review and

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Prospects—Factors Affecting the Comparability of our Results of Operations and Financial Condition” of the Form 20-F.

Loans and advances to customers in this operating segment as of 31st December, 2015 amounted to €44,970 million, a 15.0 per cent. decrease from the €52,920 million recorded as of 31st December, 2014, mainly due to the significant depreciation of the Venezuelan bolivar. Excluding the impact of loans and advances to customers in Venezuela, there was increased activity, particularly in consumer loans, credit cards and corporate lending.

Customer deposits in this operating segment as of 31st December, 2015 amounted to €41,998 million, a 25.5 per cent. decrease from the €56,370 million recorded as of 31st December, 2014, mainly due to the significant depreciation of the Venezuelan bolivar. Excluding the impact of customer deposits in Venezuela, there was positive growth in BBVA's products, in particular current and saving accounts.

Mutual funds in this operating segment as of 31st December, 2015 amounted to €3,793 million, a 1.4 per cent. decrease from the €3,848 million recorded as of 31st December, 2014, mainly due to the significant depreciation of the Venezuelan bolivar, which was partially offset by a positive performance in Argentina, Chile and Peru.

Pension funds in this operating segment as of 31st December, 2015 amounted to €5,936 million, a 28.2 per cent. increase from the €4,632 million recorded as of 31st December, 2014, mainly as a result of the increased volumes in Bolivia and the appreciation of the Bolivian currency.

This operating segment's non-performing assets ratio increased to 2.3 per cent. as of 31st December, 2015 from 2.1 per cent. as of 31st December, 2014. This operating segment non-performing assets coverage ratio decreased to 123 per cent. as of 31st December, 2015, from 138 per cent. as of 31st December, 2014.

United States

This operating segment encompasses the Group's business in the United States. BBVA Compass accounted for approximately 91 per cent. of the area's balance sheet as of 31st December, 2015. 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, 2015, 2014 and 2013:

| | As of 31st December | | |
|---|---------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| (in millions of euros) | | | |
| Total Assets..... | 86,454 | 69,261 | 53,046 |
| Loans and advances to customers..... | 60,599 | 49,667 | 38,067 |
| <i>Of which:.....</i> | | | |
| Residential mortgages | 13,182 | 11,876 | 9,591 |
| Consumer finance..... | 7,364 | 5,812 | 4,464 |
| Loans | 6,784 | 5,291 | 3,984 |
| Credit cards..... | 580 | 522 | 481 |
| Loans to enterprises..... | 31,882 | 25,202 | 19,427 |

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| | | | |
|------------------------------------|---------------|---------------|---------------|
| Loans to public sector..... | 4,442 | 3,706 | 2,772 |
| Customer deposits..... | 63,715 | 51,394 | 39,844 |
| <i>Of which:.....</i> | | | |
| Current and savings accounts | 45,717 | 38,863 | 30,212 |
| Time deposits | 14,456 | 11,231 | 8,231 |

The U.S. dollar appreciated against the euro as of 30th December, 2015 compared with 31st December, 2014, positively affecting the business activity of the United States operating segment as of 30th June, 2015 expressed in euro. See “Item 5. Operating and Financial Review and Prospects—Factors Affecting the Comparability of our Results of Operations and Financial Condition” of the Form 20-F.

Loans and advances to customers in this operating segment as of 31st December, 2015 amounted to €60,599 million, a 22.0 per cent. increase from the €49,667 million recorded as of 31st December, 2014, due to an increased focus on lending to companies instead of individuals.

Customer deposits in this operating segment as of 31st December, 2015 amounted to €63,715 million, a 24.0 per cent. increase from the €51,394 million recorded as of 31st December, 2014, mainly due to an increase in the balance of current and saving accounts and time deposits as a result of the campaigns designed to attract deposits.

This operating segment’s non-performing assets ratio was 0.9 per cent. as of 31st December, 2015 and 2014. This operating segment non-performing assets coverage ratio decreased to 151 per cent. as of 31st December, 2015, from 167 per cent. as of 31st December, 2014, as a result of the decrease in provisions related to the oil and gas sector due, in turn, to decreasing oil prices.

Organisational Structure

As of 31st December, 2015, the Group was made up of 373 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, Turkey, United Kingdom, United States of America, Uruguay and Venezuela. In addition, BBVA has an active presence in Asia.

Below is a simplified organisational chart of BBVA’s most significant subsidiaries as of 31st December, 2015.

| Subsidiary | Country of Incorporation | Activity | BBVA Voting Power | BBVA Ownership | Total Assets⁽¹⁾ |
|--|---------------------------------|-----------------|--------------------------|-----------------------|-----------------------------------|
| | | | <i>(in Percentages)</i> | | <i>(in millions of euros)</i> |
| BBVA BANCOMER, S.A. DE C.V..... | Mexico | Bank | 100.00 | 99.97 | 91,872 |
| COMPASS BANK | United States | Bank | 100.00 | 100.00 | 84,759 |
| TURKIYE GARANTI BANKASI A.S | Turkey | Bank | 49.90 ⁽²⁾ | 39.90 | 79,236 |
| CATALUNYA BANC, S.A. | Spain | Bank | 98.95 | 98.95 | 45,283 |
| BBVA CONTINENTAL, S.A. | Peru | Bank | 92.24 ⁽³⁾ | 46.12 | 21,793 |
| BBVA SEGUROS, S.A. DE SEGUROS Y REASEGUROS | Spain | Insurance | 99.95 | 99.95 | 17,279 |
| BANCO BILBAO VIZCAYA | Chile | Bank | 68.18 | 68.18 | |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

| | | | | | |
|---|-----------|-----------|--------|--------|--------|
| ARGENTARIA CHILE, S.A. | | | | | 17,071 |
| BBVA COLOMBIA, S.A. | Colombia | Bank | 95.43 | 95.47 | 14,681 |
| BBVA BANCO FRANCES, S.A. | Argentina | Bank | 75.93 | 75.95 | 7,614 |
| BANCO BILBAO VIZCAYA ARGENTARIA (PORTUGAL), S.A. | Portugal | Bank | 100.00 | 100.00 | 4,823 |
| PENSIONES BANCOMER, S.A. DE C.V. | Mexico | Insurance | 100.00 | 100.00 | 4,291 |
| BANCO DEPOSITARIO BBVA, S.A. | Spain | Bank | 100.00 | 100.00 | 4,254 |
| SEGUROS BANCOMER, S.A. DE C.V. | Mexico | Insurance | 100.00 | 99.97 | 3,630 |
| BANCO BILBAO VIZCAYA ARGENTARIA URUGUAY, S.A. | Uruguay | Bank | 100.00 | 100.00 | 2,997 |

- (1) Figures under financial statements of the subsidiary prepared in accordance with the requirements applicable to that subsidiary.
- (2) This figure is calculated by adding BBVA's stake of 39.90 per cent. in Garanti and the Doğuş Group's stake of 10.0002 per cent. As a result of the shareholders' agreement entered into between BBVA and the Doğuş Group, Garanti is consolidated within the Group.
- (3) This figure represents the interest of Holding Continental S.A., which owns 92.24 per cent. of the capital stock of Banco Continental. Each of BBVA and Inversiones Breca S.A. owns 50 per cent. of the capital stock of Holding Continental S.A. As a result of the shareholders' agreement entered into between BBVA and Inversiones Breca S.A., BBVA Continental is consolidated within the BBVA Group.

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 | | |
|---|-------------------------------|--------|--------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros)</i> | | |
| Net interest income | 16,022 | 14,382 | 13,900 |
| Net profit..... | 3,328 | 3,082 | 2,836 |
| Net profit attributable to parent company | 2,642 | 2,618 | 2,084 |

Consolidated balance sheet data

| | As at 31st December | | |
|--|-------------------------------|---------|---------|
| | 2015 | 2014 | 2013 |
| | <i>(in millions of euros)</i> | | |
| Total assets..... | 750,078 | 631,942 | 582,697 |
| Loans and receivables (net)..... | 457,644 | 372,375 | 350,945 |
| Customers' deposits | 403,069 | 319,060 | 300,490 |
| Debt certificates and subordinated liabilities | 82,274 | 72,191 | 74,676 |
| Non-controlling interests | 8,149 | 2,511 | 2,371 |
| Total equity | 55,439 | 51,609 | 44,565 |

DIRECTORS AND SENIOR MANAGEMENT

BBVA is managed by a Board of Directors which, in accordance with its current by-laws (*Estatutos*), must consist of no less than 5 and no more than 15 members. All members of the Board of Directors

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

are elected to serve three-year terms. BBVA's Board of Directors Regulations state that the Board of Directors must try to ensure that there is an ample majority of non-executive directors over the number of executive directors on the Board of Directors.

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

Board of Directors

The Board of Directors of BBVA is currently comprised of 15 members. The business address of the Directors of BBVA is Calle Azul, 4, 28050 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 of Directors Regulations include rules which are designed to prevent situations where a potential conflict of interest may arise. These Regulations provide, among other matters, that Directors with a potential conflict of interest may not participate in meetings at which those situations are being considered. Accordingly, there are no potential conflicts of interest between the private interests or other duties of the Directors and their duties to BBVA.

| Name | Current Position | Date Nominated | Date Re-elected | Present Principal Outside Occupation and Employment History ^(*) |
|---|--------------------------|--------------------|------------------|--|
| Francisco González Rodríguez ⁽¹⁾ | Group Executive Chairman | 28th January, 2000 | 11th March, 2016 | Group Executive Chairman 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, Grupo Financiero BBVA Bancomer. |
| Carlos Torres Vila ^{(1) (6)} | Chief Executive Officer | 4th May, 2015 | 11th March, 2016 | Chief Executive Officer of BBVA, since 4th May, 2015. Chairman of the IT and Cybersecurity Committee. He started at BBVA on September 2008 holding senior management posts such as Head of Digital Banking from March 2014 to May 2015 and BBVA Strategy & Corporate Development Director from January 2009 to March 2014. |
| Tomás Alfaro Drake ⁽²⁾⁽³⁾⁽⁶⁾ | Independent Director | 18th March, 2006 | 14th March, | Chairman of the Appointments Committee of BBVA since 25th |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

| Name | Current Position | Date Nominated | Date Re-elected | Present Principal Outside Occupation and Employment History ^(*) |
|--|----------------------|---------------------|------------------|--|
| | | | 2014 | May, 2010. Director of Internal Development and Professor in the Finance department of Universidad Francisco de Vitoria. |
| José Miguel Andrés Torrecillas ⁽²⁾⁽³⁾⁽⁵⁾⁽⁷⁾ | Independent Director | 13th March, 2015 | Not applicable | Chairman of the Audit and Compliance Committee of BBVA since 4th May, 2015. Chairman of Ernst & Young Spain from 2004 to 2014, where he has been a partner since 1987 and has also held a series of senior offices, including Managing Partner of the Banking Group from 1989 to 2004 and Managing Director of the Audit and Advisory practices at Ernst & Young Italy and Portugal from 2008 to 2013. |
| José Antonio Fernández Rivero ⁽¹⁾⁽⁴⁾ | External Director | 28th February, 2004 | 13th March, 2015 | Was appointed in 2001 as 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. |
| Belén Garijo López ⁽²⁾⁽⁴⁾ | Independent Director | 16th March, 2012 | 13th March, 2015 | President and CEO of Merck Serono, Member of the Executive Board and CEO of Merck Healthcare and Member of the Board of Directors of L'Oréal. 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 European Central Bank (ECB) Governing Council and Executive Committee from 2004 to 2012. Chairman of European DataWarehouse GmbH since 2013. Head of BBVA's Global Economics, Regulation and Public Affairs. |
| Sunir Kumar Kapoor ⁽⁶⁾ | Independent Director | 11th March, 2016 | Not applicable | President and CEO of UBmatrix Inc from 2005 to 2011. Executive Vice President and CMO of Cassatt Corporation from 2004 to 2005. Oracle Corporation, Vice President Collaboration Suite from 2002 to |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

| Name | Current Position | Date Nominated | Date Re-elected | Present Principal Outside Occupation and Employment History ^(*) |
|---|----------------------|---------------------|------------------|--|
| | | | | 2004. Founder and CEO of Tsola Inc from 1999 to 2001. President and CEO of E-Stamp Corporation from 1996 to 1999. Vice President of Strategy, Marketing and Planning of Oracle Corporation from 1994 to 1996. Currently, he is an independent consultant to various leading companies in the technology sector, such as cloud infrastructures or data analysis. |
| Carlos Loring Martínez de Irujo ⁽¹⁾⁽⁵⁾ | External Director | 28th February, 2004 | 14th March, 2014 | Was Partner of J&A Garrigues, from 1977 until 2004, where he has also held a series of senior offices, including Director of M&A Department, Director of Banking and Capital Markets and member of its Management Committee. |
| Lourdes Máiz Carro ⁽²⁾⁽³⁾ | 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 Spanish State Counsel Corps (Cuerpo de Abogados del Estado) 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 ⁽¹⁾⁽³⁾ | External Director | 28th January, 2000 | 13th March, 2015 | 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 ⁽⁴⁾⁽⁵⁾ | Independent Director | 1st February, 2011 | 14th March, 2014 | Senior Partner of the Financial Division in Spain of Arthur Andersen, from 1979 until 2002. Independent consultant from 2002 to 2010. |
| Juan Pi Llorens ⁽²⁾⁽⁴⁾⁽⁶⁾ | Independent Director | 27th July, 2011 | 13th March, 2015 | Chairman of the Remuneration Committee since 31st March, 2016. Had a professional career at IBM holding various senior posts at a national and international level including Vice President for Sales at IBM Europe, Vice President of Technology & Systems Group at IBM Europe and Vice President of the Financial Services Sector at GMU (Growth Markets Units) in China. He was executive President |

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

| Name | Current Position | Date Nominated | Date Re-elected | Present Principal Outside Occupation and Employment History ^(*) |
|---|----------------------|------------------|------------------|---|
| Susana Rodríguez Vidarte ⁽¹⁾⁽³⁾⁽⁵⁾ | External Director | 28th May, 2002 | 14th March, 2014 | of IBM Spain. Holds a Chair in Strategy at the Faculty of Economics and Business Sciences at Universidad de Deusto. Member of Instituto de Contabilidad y Auditoría de Cuentas (Spanish Accountants and Auditors Institute) and Doctor in Economic and Business Sciences from Universidad de Deusto. |
| James Andrew Stott ⁽⁴⁾⁽⁵⁾⁽⁶⁾ | Independent Director | 11th March, 2016 | Not applicable | Chairman of the Risk Committee since 31st March, 2016. Chairman of the Innovation Board, Business Innovation Consulting Group from 2011 to 2015. Independent director and member of the Audit Committee of Catenon from 2011 to 2015. Independent director and Chairman of the Risks and Audit Committee of Barclays Bank España from 2011 to 2014. Partner and General Manager, and other senior posts at Oliver Wyman Financial Services from 1994 to 2010. |

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

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

Major Shareholders and Share Capital

As of 18th January, 2016, Blackrock, Inc. communicated that it held an indirect interest of 5.032 per cent. in BBVA's share capital. As at 31st March, 2016, no other person, corporation or government beneficially owned, directly or indirectly, 5 per cent. or more of BBVA's share capital. BBVA's major shareholders do not have voting rights which are different from those held by the rest of its shareholders. To the extent known to BBVA, BBVA is not controlled, directly or indirectly, by any other corporation, government or any other natural or legal person. As of 31st March, 2016, there were 942,343 registered holders of BBVA's shares, with an aggregate of 6,366,680,118 shares, of which 597 shareholders with registered addresses in the United States held a total of 1,140,729,306 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

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

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 ongoing lawsuits are not material and therefore do not require disclosure to the markets.

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 (the **Non-Resident Income Tax Law**), Royal Decree 1776/2004 of 30th July approving the Non-Resident Income Tax Regulations as amended by Royal Decree 633/2015 of 10th July, 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 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 the Non-Resident Income Tax Law 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 are located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., without prejudice to any exemption which may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as of 31st December, 2016.

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 and State rules even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT signed by Spain.

The effective tax rate, after applying all relevant factors, ranges between 0 per cent. and 81.6 per cent.

However, a judgment from the European Court of Justice dated 3rd September, 2014 declared that the Spanish Inheritance Tax Act is against the principle of free movement of capital within the EU as Spanish residents are granted tax benefits that, in practice, allow them to pay much lower taxes than non-residents. According to Law 26/2014, of 27th November, it will be possible to apply tax benefits approved in some Spanish regions to EU residents by following certain 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

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 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;
- (ii) payment date;
- (iii) total amount of income paid on the relevant date; and
- (iv) total amount of the income corresponding to each clearing house located outside Spain.

These obligations refer to the total amount paid to investors through each foreign clearing house.

In accordance with Article 44 of RD 1065/2007, the 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 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 of 19 per cent. on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event withholding tax should be required by law, the Bank shall pay such additional amounts as would have been received had no such withholding or deduction been required, except as provided in Condition 12 and as otherwise described in this 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 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 Law 27/2014 (in general terms and among other requirements, where that entity's ownership interest is at least 5 per cent. or the acquisition value is more than €20,000,000), and (iv) the gain is not obtained through a country or territory statutorily defined as a tax haven.
- If the transfer of Common Shares in an official Spanish secondary stock market is made by any Holder who is resident in a country that has entered into a DTT with Spain containing an exchange of information clause (including the Treaty), the gain obtained will be exempt from taxation in Spain. This exemption is not applicable to capital gains obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

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, 2016.

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 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 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**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Preferred Securities (including secondary market transactions) in certain circumstances.

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

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

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 in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). 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).

On 10th November, 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1st January 2017 in the case of Austria and from 1st January 2016 in the case of all other EU Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

SPANISH DIRECT REFUND FROM SPANISH TAX AUTHORITIES

Beneficial owners entitled to receive income payments in respect of the Common Shares at the reduced withholding tax rate contained in any applicable DTT, but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial owners may claim any excess amount withheld by the Bank from the Spanish Treasury following the 1st of February of the calendar year following the year in which the relevant payment date takes place, and within the first four years following the last day on which the Bank may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership, and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such beneficial owner, among other documents.

For further details, prospective Holders should consult their tax advisors.

U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT WITHHOLDING

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, 2019. 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-Spanish 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.

SUBSCRIPTION, SALE AND TRANSFER

The Joint Bookrunners have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 7th April, 2016, 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 under the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**). 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:

SUBSCRIPTION, SALE AND TRANSFER

- (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 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.

Canada

The Preferred Securities will not be qualified for sale under the securities laws of any province or territory of Canada. No offer, sale or distribution of the Preferred Securities has been or will be made by Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner), and each Joint Bookrunner (other than Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner)) has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Preferred Securities, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each Joint Bookrunner (other than Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner)) has also represented and agreed that it has not and will not distribute or deliver the Offering Circular, or any other offering material in connection with any offering of Preferred Securities in Canada, other than in compliance with the applicable securities laws.

General

No action has been taken by the Bank or any of the 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.

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' meeting of the Bank, held on 16th March, 2012 and (ii) meeting of the Board of Directors (*Consejo de Administración*) of the Bank, dated 2nd February, 2016.
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, 2015 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries since 31st December, 2015.
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 Calle Azul, 4, 28050 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, 2015 and 31st December, 2014;
 - (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 are Deloitte, S.L. (registered as auditors on the *Registro Oficial de Auditores de Cuentas*) who have audited the Bank's accounts for each of the two financial years ended 31st December, 2015 and 31st December, 2014 which have been prepared in accordance with EU-IFRS.
8. The Preferred Securities have been accepted for clearance through the European Clearing Systems. 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 XS1394911496 and the common code is 139491149. 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 Status*"). The procedures agreed and fully described in the Agency Agreement may be

GENERAL INFORMATION

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 8.875 per cent. per annum (on the basis of quarterly distribution payments), which is equivalent to a yield of 9.175 per cent. per annum (on the basis of an annual distribution payment).
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, www.borsabcn.es, www.bolsavalencia.es and 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 for the Bank and its affiliates in the ordinary course of business.

ISSUER

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